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Part 1: Introduction and Overview

1.1 Mayors foreword

The 2008/2009 financial year has seen my office focus chiefly on reaching out to the community and promote the opening of communication lines between community members and the municipality. It is therefore with great pleasure that I present this annual report.

The financial year under review saw a number of projects that were centered around this area of focus namely the Exco outreach, traditional leaders meetings (focusing on improved working relations between traditional leaders and the municipality), and general meetings held with community members, to name but a few.

The Umzimvubu newsletter designed as a tool for improved communication between Council and Community and increased awareness of achievements and services offered by the municipality has proved to be valuable beyond our expectations. Skills development, such as informative writing and research and executive support was made available for our office. This afforded the office of the mayor an invaluable opportunity to fine tune our writing and research skills. This proved fruitful to community members who were on the receiving end of speeches that were informative and with substance.

Another area to take note of was the high standard of the municipality's IDP. The IDP sets out the municipality's performance against priorities set and adopted in conjunction with the community and from which stems the SDBIP.

The municipality has also gone to great lengths to empower the youth as well as women during the financial year under review. The Vukuzithathe Youth Organisation (Mt Ayliff) and Sophumelela Cleaning Services (Mt Frere) were some of the empowerment initiatives taken. Women and the youth make up the majority of the population so the empowerment of the two is of utmost importance.

We look forward to many a year where we can work hand in hand with the community in a bid to improve the quality of life of each and every person in our communities.

P.B. Mabengu Honourable Mayor

1.2 Municipal Manager's report

In the short period that I have been the Municipal Manager much of the focus has been to address the Key Strategic issues as outlined in the Integrated Development Plan (IDP). Together with a tireless team of staff the municipality has aimed especially at the eradication of infrastructure backlogs, particularly in the area of water, sanitation and electricity supply; job creation as well as tourism development to name but a few.

Our IDP was reviewed and it highlights ward for ward the goals we aimed to achieve as a municipality in the 2008/2009 financial year. The municipality strives to continuously improve the quality of life of its citizens through improvement in the delivery of services.

Skills development within our staff members has also been a high priority with a number staff members being in the process of completing undergraduate as well as postgraduate degrees through UNISA. Numerous short courses were also conducted for the benefit of staff in order to continually update them with the latest industry technological advancements.

The biggest challenge during the financial year under review was the disclaimer decision reached by the Auditor General. Though this has reflected badly on the municipality as a whole, a valuable lesson has been learned, particularly the importance of keeping records in order to establish a clear audit trail for all transactions passed.

Community development has been one of the areas of success during the 2008/2009 financial year. This was mainly due to our massive food projects that have afforded community members not only an entrepreneurial opportunity but also a means to sustain themselves and their families. To highlight one particular event: On the 9th June 2009 Mzintlava beneficiaries gathered in Elugelweni to divide and pack the maize into bags as had been agreed upon. Each family obtained a total of 30 bags. Markets have also been secured for maize which has been sent to PSP in Kokstad for storage until such time it can be sold to consumers.

I would like to conclude by thanking each and every member of staff at Umzimvubu municipality for their support since my arrival as well as their unwavering dedication to quality service delivery.

Part 1: Introduction and Overview

1.3 Overview of the municipality

Geographical profile and Demographics

Umzimvubu Municipality is located within the Alfred Nzo District in the North-west part of the Eastern Cape adjacent Elundini Municipality to the West, Greater Kokstad Municipality (Kwazulu-Natal) and Matatiele Municipality to the North, Mhlontlo Municipality to the South, and Ntabankulu Municipality to the East. The municipality is located along the N2 that links East London (Eastern Cape) to Durban (Kwazulu-Natal). The municipality measures 2, 506 km² in extent. It incorporates Mt. Ayliff and Mt. Frere towns and has a total population of 197, 550. The Umzimvubu Municipality area is one of the poorest in the Eastern Cape and is beset by huge backlogs in infrastructure and problems related to poverty and underdevelopment. Of the two local municipalities located within the Alfred Nzo District (Matatiele being the other), it is the most densely populated. A major concern is the fact that the economy is not adequately stimulated and there is a need for major capital investment to boost the economy of Mt. Ayliff and Mt. Frere towns. The population of Umzimvubu is more than half female and about 94% of the overall population is made up by the marginalised rural communities. About 88% of the economically active people earn less than R400.00 per month, thus further illustrating the enormity of the poverty problem within the Umzimvubu area. However there are some informal businesses which may not have been recorded.

Summary of demographics

	Census 2001	Community Survey 2007
Municipal Area (km²)	2, 506 km ²	2, 506km ²
Population	376, 061	197, 550
Number of households	-	136,310 (district)
Female	-	54% (est.)
Male	-	46% (est.)

Part 1: Introduction and Overview

1.4 Executive summary

Mission statement

To ensure the delivery of quality services that promote economic growth, support development and respond to the community needs in accordance with our developmental mandate.

Vision

A municipality that is known to put community development first. We will render quality services through our employees and create a platform for vital economic activity which will create sustainable financial viability and development for a better life for all.

Strategic Issues

The key Strategic issues that require the municipality's attention are developed in line with political planning guidelines. These include the following developmental priorities as highlighted in the municipality's Integrated Development Plan (IDP):

- improving the level of service delivery and attitude towards the public;
- · eradication of infrastructure backlog in terms of:-
 - Access roads;
 - Stormwater;
 - Solid waste;
- containing the spread of HIV / AIDS
- improving safety and security of communities by introducing crime preventions strategies;
- improving infrastructural maintenance;
- improving community participation and communication;
- promoting customer care culture;
- enhancing Local Economic and Social Development;
- creating jobs;
- enhancing tourism;
- implementation of a Performance Management System (PMS);

- constant Human Resource Development in the municipality and community;
- improving Financial Management Systems and fiscal discipline;
- skills development and training of municipal staff members

The municipality is currently in the process of addressing the above mentioned issues in a bid to improve the quality of life for the citizens of the Umzimvubu municipal area of jurisdiction.



16 Days of Activism Programme

Part 2: KPA Achievement Report

Chapter 1: Human resource and other organisational management- KPA 1

The purpose of this function is to render a professional support service that is well aligned to the municipality's Integrated Development Plan (IDP) as well as to the needs of the municipality's stakeholders and customers. There are 262 approved posts in total (Refer to the attached organogram). Of these, only 181 posts were budgeted for due to the municipal financial constraints. There were changes in the structure as compared to the previous financial year due to Council re-structuring process. The new structure was drafted considering the municipal Key and Core functions. Functions were defined properly based on legislation. Functions were divided according to core, strategic and administrative support. Like functions were grouped together. The organizational structure was developed to ensure effectiveness and promote efficiency. It was kept in mind that the municipality is a single entity.

1.1 Staff development initiatives during the financial year

The following are staff development initiatives taken by the municipality in the form of training programs and bursary assistance offered to the municipal officials and councillors.

Skills development and skills audit

Programme	Beneficiaries	Duration	Dates	Service provider
Report Writing	Councillors (23)	2 days	12/08-13/08/2008	Damelin
First Aid Level 1	Traffic Officers (7), Laborers (6) Foreman (4) Total= 17	3 days	05/08-07/08/2008	SA Red Cross
Web development	IT Officer	2 weeks	08/2008	I.T Intellect
CPMD Program	Councillors (3) Officials (2)	7 months	2008	Wits Business School
	Total= 5			

Report Writing	Ward Clerks (22)	2 days	22/09-23/09/2008	Damelin
	Officials (6)			
	Total =28			
First Aid Level 2	Traffic Officers (7) Foreman	2 days	15/09-19/09/2008	SA Red Cross
	(4)			
	Total =11			
Advanced Case Law	Labour Relations Officer	2 days	09/09-10/09/2008	Knowledge based Solution
HIV/AIDS Workshop	Labourers (58)	4 days	12/10-16/10/2008	APMC
HIV/AIDS Workshop	Officials (6)	4 days	12/10-16/10/2008	AFINIC
	Officials (6)			
	Total= 64			
Occupational Health and	Labourers (56)	4 days	27/10-30/10/2008	HDPSA
Safety	Officials (4)			
	Total= 60			
Disaster Management	Disaster Management	5 days	13/10-17/10/2008	SA Red Cross
Course	Officer			
Community Facilitation	Community Development	5 days	11/2008	Siyakhula Trust
Program	Facilitator			
Municipal Admin	Officials (End users)	5 days	01/12-05/12/ 2008	Sebata
ABET	Officials (9)	1 year	Whole Year	Dept of Education

Skills development courses

Course	Beneficiaries	Duration	Institution
Certificate in Public Procurement	Z. Manqumakazi	1 year	UNISA
Procurement & Supply Chain Management	B. Fikeni	1 year	UNISA
Human Resource Development	M. Khohli	1 year	UNISA
Intermediate Certificate in Project Management	SE Maqungo	5 months	Leadership Development Institute

Bursary Assisted Courses 2008/2009

Course	Beneficiaries	Duration	Institution	
BCom Financial Management	N. Fikeni	Three years	UNISA	
B Tech Public Management	S .Gogela	Three years	UNISA	
ND Public Management	S. Mtolo	In progress	UNISA	
ND Public Management	NP Manciya	In progress	UNISA	
Hons B Admin	S. Kulu	One year	UNISA	
Admin Degree	F. Ndinisa	Two years	UNISA	
ND Archives Management	G. Mahlabela	Three years	UNISA	

Levels of education and skills

Total number of staff	Number of staff without Grade 12	Number of staff with Senior Certificate only	Number of staff with Tertiary/accredited professionals training
151	63	37	51

Pension and medical aid:

Pension funds	Number of members	Medical aid funds	Number of members
SAMWU Provident Fund	55	Bonitas	9
Municipal Employees Pension Fund	58	Key Health	15
		Samwumed	50
		Hosmed	0
	- <u> </u>	Hosmed	1

Staffing levels as 30 June 2009 by department:

Department : Section 57 management	Number of approved posts per position	Filled posts	Vacant posts
Municipal Manager	1	1	0
Corporate Services Manager	1	0	1
Citizen & Community Services Manager	1	0	1
Infrastructure & Planning Manager	1	1	0
LED, Tourism &Environmental Management	1	1	0
Manager			
Chief Financial Officer	1	1	0
Chief Operations Officer	1	1	0
Total	7	5	2

Department : Budget and Treasury	Number of approved posts per position	Filled posts	Vacant posts
CFO	1	1	0
Assistant Manager: SCM	1	1	0
Assistant Manager: B&T	1	1	0
Accountant	1	0	1
Project Accountant	1	1	0
Expenditure & Payroll Officer	1	1	0
Revenue Officer	1	1	0
Logistics Management Officer	1	1	0
Revenue Clerk	1	1	0
Revenue Clerk	1	1	0
2x Drivers	2	2	0
Total	10	9	1

Department : Corporate Services	Number of approved posts per position	Filled posts	Vacant posts
Manager: Corporate Services	1	0	1
Assistant Manager: Corporate Services	1	1	0
IT Officer	1	1	0
Senior Wellness Officer	1	0	1
Labour Relations Office r	1	1	0
Skills Development Officer	1	0	1
Admin Officer	1	1	0
2x Receptionists	2	2	0
Committee Clerk	1	1	0
Senior Admin Officer	1	1	0
Personnel Clerk	1	1	0
EXCO Support Clerk	1	1	0
Admin Clerk: Registry	1	1	0
3x Cleaners	3	2	1
24x Ward Clerks	24	24	0
Total	41	37	4

Department : SPU and	Number of approved posts per	Filled posts	Vacant posts
Communications	position		
Chief Operations Officer	1	1	0
SPU Officer	1	1	0
Communications Officer	1	1	0
Admin Officer	1	1	0
Community Development Facilitator	1	1	0
Mayor's Driver	1	1	0
PA: Speaker	1	1	0
PA: Mayor	1	1	0
SPU/Events Coordinator	1	1	0
Total	9	9	0

Department : Office of the Municipal Manager	Number of approved posts per position	Filled posts	Vacant posts
Municipal Manager	1	1	0
PA: Municipal Manager	1	1	0
Total	2	2	0

Department : LED, Tourism and Environment	Number of approved posts per position	Filled posts	Vacant posts
Livironment	position		
Manager: LED	1	1	0
Assistant Manager: LED	1	1	0
2x LED Officers	2	2	0
Admin Officer	1	1	0
Total	5	5	0

Department : Infrastructure and Planning	Number of approved posts per position	Filled posts	Vacant posts
Manager: Infrastructure & Planning	1	1	0
PMU Manager	1	1	0
Project Manager	1	1	0
Senior Town Planner	1	1	0
Town Planner	1	0	1
Building Inspector	1	0	1
Admin Officer	1	1	0
2x Foreman	2	2	0
6x General Assistants	6	6	0
Total	15	13	1

Department : Citizen and Community	Number of approved posts per	Filled posts	Vacant posts
Services	position		
Manager: Citizen & Community Services	1	0	1
Chief Traffic Officer	1	1	0
Traffic Superintendent	1	1	0
Assistant Superintendent	2	2	0
Principal Clerk	1	1	0
Disaster Officer	1	1	0
10x Traffic Officers	10	7	3
2x Foreman	2	2	0
56 x General Assistants	56	46	10
TLB Operator	1	1	0
3x Truck Drivers	3	2	1
Total	79	64	15

Technical Staff registered with professional bodies

Technical Service (e.g. water, electricity etc)	Total number of technical service Managers	Total number registered in the accredited professional body	Total number pending registration confirmation in the accredited professional body	Total number not yet registered in the accredited professional body
Project Manager	3	1	0	2
Infrastructure Manager	1	1	0	0

Staff costs reflected as a percentage of total operational expenditure:

	2006/2007	2007/2008	2008/2009
	R	R	R
Salaries	30,229,971	32,172,981	36,552,190
Total operational expenditure	49,414,330	49,027,165	53,390,807
Salaries % of total operational expenditure	61%	66%	68%

Senior officials' wages and benefits:

Name	Basic	13 th Cheque	Pension Fund	Medical Aid	Housing Allowance	Car Allowance	UIF	Total
G.T.P. Nota (MM)	482,400.00	40,200.00	60,000.00	21,600.00	52,815.28	144,000.00	2,994.72	804,000.00
M. Hloba (CFO)	325,960.97	27,163.41	30,242.31	11,859.46	71,343.85	136,186.38	3,259.61	606,015.99
P. Vitshima (LED)	287,278.30	23,939.86	30,242.31	18,178.98	44,324.23	133,491.72	2,875.37	540,330.77
S. Kulu (COO)	325,960.97	27,163.41	30,242.31	11,859.46	71,343.85	136,186.38	3,259.61	606,015.99
S.P. Ntonga (I&P)	330,578.01	27,548.17		51,105.96	38,333.90	150,262.71	3,305.78	601,134.53

1.3 Implementation of the Performance Management System

The municipality has developed a performance management system (PMS) as envisaged under section 38 of the Municipal Systems Act. This process includes the development and implementation of an organisational performance management policy, municipal performance scorecard, management, monitoring and reporting system to be cascaded down to managers and officials within the municipality. Although not yet implemented, the PMS was adopted by council.



Scenic routes draw tourist attention

Part 2: KPA Achievement Report

Chapter 2: Basic service delivery performance highlights- KPA 2

Introduction

The Municipality has, during the 2008/2009 financial year made a concerted effort to improve on backlogs as well as expand the reach on services provided to the community. The areas of focus have been the demand for housing, road infrastructure, as well as tourism initiatives. Water and sanitation services are the responsibility of the District municipality and therefore not reflected in the report.

2.1 Electricity services

a. Electricity services delivery strategy and main role-players:

With regard to electricity supply, the municipality is currently not generating any revenue from the sale of electricity. This is mainly due to the fact that no partenership exists between the district municipality and the main supplier of electricity ESKOM wherein ESKOM would supply electricity in bulk to the local municipalies.

b. Levels and standards in electricity services:

There are at present major backlogs with regard to the supply of electricity to households. To date, Umzimvubu municipality trails the national and provincial averages of 54% (Electricity Sector Plan). Only 25% of the population has access to electricity with an estimated 75% of the people of Umzimvubu still utilising candles, paraffin, gas and other sources of electricity.

c. Annual performance as per key perfomance indicators in elctricity sevices

	Indicator name	Total number of households expected to benefit	Estimated backlogs	Target set for the financial year under review	Number of households reached during the financial year	Percentage of achievement during the year
1	Percentage of households with access to electricity services	All wards	75%	Wards 7 and 18	Wards 7 and 18	25%
2	Percentage of indigent households with access to basic electricity services	All wards	100%	-	-	0%
3	Percentage of indigent households with access to free alternative energy sources	All wards	75%	All wards	-	25%

d. Major challenges and remedial actions with regard to electricity services

The major challenges are brought on by the backlogs in electricity supply as has been discussed above. These backlogs have led to:

- Constraints to Entrepreneurial opportunities
- Limiting access to technology
- Reduction in quality of life

All wards within the Umzimvubu area of jurisdiction have been affected by this lack of electricty supply. The rural community is the most affected.

The major areas of concern arise amongst others from factors such as:

- The unavailability of meters making for an easy target for illegal connections
- The fact that the majority of the Umzimvubu area of jurisdiction is mountainous, making access to households a challenge
- Low-density areas resulting in the expensive electricity connections

The municipality is however undertaking some remedial action to aid these challenges. Equitable share budget is available to eradicate the backlog. The municipality also has political leadership that liaise directly with national, provincial governments and Eskom.

2.2 Road maintanace

a. Road maintanance services delivery strategy and main role-players:

Both the district and local municipalities are responsible for road maintanance. The MIG allocations for road maintanance projects totalled R30, 755,000.00 of which R 9,767,000.00 was allocated to Umzimvubu Municipality. This MIG allocation was to be divided between 11 projects.

b. Levels and standards in road maintanance services:

The poor state of roads as well as bridges within the municipal area of jurisdiction has had far reaching consequences for community members. This includes amongst others: poor access to health facilities; poor access to economic activities; poor access to educational facilities; poor access to food supplies as well as 45 % of access roads are unusable during rainy seasons.

c. Annual performance as per key perfomance indicators in road maintanance sevices

	Indicator name	Total number of households expected to benefit	Estimated backlogs	Target set for the financial year under review	Number of households reached during the financial year	Percentage of achievement during the year
1	Percentage of households without access to gravel or graded roads	All wards	-	203.7km	All wards	203.7km
2	Percentage of road infrastructure requiring upgrade	All wards	63%	-	All wards	37%
3	Percentage of planned new road infrastructure actually constructed	All wards	37%	-	All wards	63%
4	Percentage of capital budget reserved for road upgrading and maintenance effectively used	All wards	43%	28%	All wards	25%

d. Major challenges and remedial actions with regard to road maintanance services

As community participation is largely encouraged, the involvement of community members in planning and identifying priorities for development of infrastructure.

The municipality is also at a favourable position as there is an abundance of natural resources such as gravel, sand water and crush stone that can be used for road construction.

Umzimvubu is part of the nodal points declared nationally for Integrated Sustainable Rural Development Strategy (ISRDS) with roads linking to anchor project. There has been a maintenance budget for the already constructed roads.

Co-operative governance presents an opportunity to streamline budgets and programmes to ensure maximum impact. Co-operation with other support institutions such as MIG could be used to ensure sustainable infrastructure development.





Lwandlana Access Road

2.3 Waste management

a. Waste management services delivery strategy and main role-players:

Waste collection and disposal services at present are only extended to urban areas. Quantities of waste generated in rural areas are deemed not a danger; however education and awareness campaigns are most needed by the rural communities.

The solid waste generated in Umzimvubu Municipality comprises primarily building rubble, garden refuse; commercial and general dry industrial waste. Waste deemed hazardous generated by hospitals and private doctors is often disposed of at the municipal solid waste disposal sites. Scrap metal is also found especially old vehicles although it doesn't impose a serious concern at this stage

b. Levels and standards in waste management services:

At present the municipality collects an estimated 8% of the waste disposal (Communal Dump, Municipality). The remaining 92% is either through dumping by community members, and or out in the open, which poses serious threats to the environment. A waste site in Mount Frere has been completed and the proposed one in Mount Ayliff is awaiting authorisation from Department of Environmental Affairs.

c. Annual performance as per key perfomance indicators in waste management sevices

	Indicator name	Total number of households expected to benefit	Estimated backlogs	Target set for the financial year under review	Number of households reached during the financial year	Percentage of achievement during the year
1	Percentage of households with access to refuse removal services	All areas in municipal area of jurisdiction	92%	-	Urban areas	8%

d. Major challenges and remedial actions with regard to waste management services

Effective waste disposal is chiefly affected by the infrastructure backlogs, lack of landfill management and general neglect in the past. This has resulted in unsupervised and unauthorised dumping which leads to environmental pollution and water borne diseases.

To try and eradicate the backlog, Umzimvubu Local Municipality has been earmarked by DEAT as one of the pilot Municipalities to develop Integrated Waste Management Plan (IWMP) of which the IWMP document will be on completion by end of August 2008. There are also plans to launch a recycling campaign.

2.4 Housing and town planning

a. Housing and town planning services delivery strategy and main role-players:

The housing backlog occurs mainly in the traditional areas as well as in the informal housing settlements found in and around towns. For planning purposes the housing need for the Municipality in the next five years was determined through the submission of estimates for each ward.

b. Levels and standards in housing and town planning services:

The municipality has undertaken to source out available land in a bid to offer omongst others, middle income housing within the communities. A town planning review is also taking place.

c. Annual performance as per key perfomance indicators in housing and town planning sevices

	Indicator name	Total number of households expected to benefit	Estimated backlogs	Target set for the financial year under review	Number of households reached during the financial year	Percentage of achievement during the year
1	Percentage of households living in informal settlements	-	-	-	-	-

2	Percentage of informal services that have been provided with basic services	341 sites, Mt. Frère ext 5- 1000sites Ext 8 Mt. Ayliff- 47 sites	-	-	341 sites, Mt. Frère ext 5- 1000sites Ext 8 Mt. Ayliff- 47 sites	-
3	Percentage of households in informal housing that conforms to the minimum building standards for residential houses	-	-	-	-	-

d. Major challenges and remedial actions with regard to housing and town planning services

Service delivery is the major challenge with regard to housing. To remedy the situation, the municipality has embarked on a number of exercises which include the following:

- The municipality has plans to conduct a viability study for middle income housing.
- The development of a Land Use Management System which will aid in the bid to source suitable areas for development
- There will also be a land audit conducted, to keep record of all state owned land. Further to this, a surveying exercise of all rural areas will be conducted

2.5 Spatial planning

a. Preparation and approval process of SDF:

The aim is to develop a spatial development framework (SDF) that links the strategies and projects identified in the IDP and present them spatially. The SDF is to be reviewed on an annual basis to deal with changing circumstances.

b. Land use management

As mentioned above, the municipality will develop a Land Use Management System which will aid in the bid to source suitable areas for development. The municipality is also aiming to encourage land ownershio as a means to social and development. An audit of state owned land is also planned

2.6 Indigent policy implementation

a. Preparation and approval process of the indigent policy:

The indigent policy was compiled and adopted by council.

b. Implementation of the policy:

The municipality issued indigent applications, which were then assessed and approved for households that qualified. This was done in accordance to the indigent policy guidelines which outline qualification criterion as well as level of service. Qualifying consumers are being subsidised on services. Also consumers on grid electricity are benefiting through the ESKOM FBE programme.

Part 2: KPA Achievement Report

Chapter 3: Municipal Local Economic Development framework- KPA 3

3.1 Presentation of the LED strategy

The current LED strategy was developed in 2007 thus the municipality is still in the process of awarding a service provider to review the existing LED strategy.

The mandate of the Local Economic Development, Tourism and Environmental Management is to co-ordinate facilitate and implement integrated service delivery programmes through community involvement and resources mobilisation for sustainable livelihood which is based on key performance areas of the department.

Local Economic Development focuses on Agriculture, Agro-based Industry, SMME Development, Community Based Forestry, Tourism and Environmental Waste Management.

The Department of LED in the municipality is mandated to deliver as follows:-

- Tourism Development
- Forestry Development
- Environmental Waste Management
- SMME development
- Agrarian reform
- Investment Promotion
- Development of LED strategy

3.2 Progress towards achieving the LED key objectives

a. Improve public and market confidence

The Department of LED in collaboration with service providers has assisted with securing of markets as well as organised storage for the maize which will be sustainable in the long run. The produce has been sent to PSP in Kokstad for storage until such time it can be sold to consumers.

On the 9th June 2009 Mzintlava beneficiaries came together in Elugelweni to divide and pack the maize into bags as had been agreed upon. The bags will be divided amongst families who will each get a total of 30 bags. These beneficiaries are the families who were authorized to harvest on the fields by themselves, an offer which was taken advantage of.

b. Intensify enterprise support and business development

The following are strategic plans aimed at business development:

- Investigate feasibility of a business and industrial incentive program.
- Create a single tourism development and marketing mechanism for the municipality.
- Identify flagship projects which can act as catalysts to local economic developments.
- Enhance/establish institutional capacity within the municipality to pursue LED projects.
- Employ small-scale local contractors in public works programs.
- Investigate the feasibility of employment creation through the following types of projects: construction and maintenance of public buildings.
- Investigate the feasibility of employment creation through the following types of projects: alien plant eradication, market gardening and fresh produce markets, environmental conservation projects, tourist support services, medicinal herbs.

c. Support social investment programme

Investing in the local entrepreneurs as well as improving the quality of life of the ordinary man is of utmost importance at Umzimvubu Municipality. The following are part of the municipality's social investment programme:

- To create job opportunities through local economic development strategies identified in the IDP.
- In consultation with the District Municipality, prepare a poverty alleviation plan, identifying focus areas and projects.
- Undertake a quality of life survey.





Local Economic Development



Mt. Frere Mayoral Cup Day

Part 2: KPA Achievement Report

Chapter 4: Municipal financial viability and management- KPA 4

4.1 The audited financial statements

UMZIMVUBU LOCAL MUNICIPALITY ANNUAL FINANCIAL STATEMENTS



Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2009

General Information

Legal form of entity Local Municipality - Mount Frere Nature of business and principal activities Providing of basic services to the community

Mayoral committee

Mayor: Mabengu PB Speaker: Tshekela ST

Councillors:

ooundinois.		
Jeke MM	Jakalase VA	Magaya IK
Gwebani ZA	Jona GX	Mkanda GU
Mnukwa SK	Mapekula MV	Makaula VM
Ndevu Z	Mataka M	Msindwana TS
Sineke MN	Mbele M	Siksi LL
Thingathinga PK	Mbedu P	Sishiqa NV
Ngalonkulu EN	Mgoqozi DL	Sonqishe Z
Mthethandaba C	Mjokane AN	Zwane BB
Cezula NP	Mpanda N	Fikeni NE
Dandala HN	Mzaza MN	Myingwa S
Diko BZ	Ngqaimbana LM	Mdzinwa M
Duba N	Nqatsha LL	Mpepanduku MM
Garane AN	Phangwa SK	Sishuba EL
Gcadinja NN	Ntsengwane M	Senzela AN
Gqoli SP	Lungu X	

Chief Finance Officer (CFO): M. Hloba

Registered office

ERF 813 Main Street Mount Frere 5090

Bankers: First National Bank

Standard Bank of South Africa Limited

Auditors: Auditor General

Chartered Accountants (S.A.)

Municipal Manager: G.P.T Nota

Legislation governing the operations of the Municipality: Municipal Finance Management Act

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Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2009

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are responsible for reporting on the fair presentation of the annual financial statements. The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practices (GRAP) and the Standards of Generally Accepted Municipal Accounting Practices (GAMAP) prescribed by the Minister of Finance in terms of General Notice 991 and 992 of 2005. Accounting policies for material transactions, events or conditions not covered by the above GRAP and GAMAP Standards have been developed in accordance with paragraphs 7, 11 and 12 of GRAP 3. The Minister of Finance has, in terms of General notice 552 of 2007 exempted compliance with certain of the above mentioned standards and aspects or parts of these standards. Details of the exemptions applicable to the municipality have been provided in the notes to the annual financial statements. The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates. The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints. The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss. The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2010 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future. The municipality is wholly dependent on the government for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the government has neither the intention nor the need to liquidate or curtail materially the scale of the municipality. The external auditors are responsible for independently reviewing and

reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5. The annual financial statements set out on pages 29 to 73, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2009 and were signed on its behalf by:

GPT Nota

Umzimvubu Local MunicipalityAnnual Financial Statements for the year ended 30 June 2009

Statement of Financial Position

Umzimvubu Municipality

Figures in Rand	Note(s)	2009	2008
Assets			
Current Assets			
Trade and other receivables	3	3,244,730	1,692,320
Consumer debtors	4	1,045,331	-
Cash and cash equivalents	5	66,009,744	82,356,085
		70,299,805	84,048,405
Non-Current Assets			
Property, plant and equipment	6	296,306,801	-
Investment property	7	1	-
		296,306,802	
Total Assets		366,606,607	84,048,405
Liabilities			
Current Liabilities			
Payables	8	649,900	87,676
Employee benefits	9	851,109	1,831,495
Unspent Conditional Grants and Reserves	10	48,979,766	-
Bank overdraft	5	<u>-</u>	10,451,099
		50,480,775	12,370,270

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Non-Current Liabilities

 Project funds
 11
 - 1,587,862

 Statutory funds
 12
 - 1,821,781

 Grants
 - 78,939,573

 - 82,349,216

 Total Liabilities
 50,480,775
 94,719,486

Net Assets 316,125,832 (10,671,081)

Net Assets

Reserves

Total Reserves 272,362,380

Accumulated surplus <u>43,763,452</u> (10,671,081)

Total Net Assets <u>316,125,832</u> (10,671,081)

Umzimvubu Local MunicipalityAnnual Financial Statements for the year ended 30 June 2009

Statement of Financial Performance

Grants and subsidies	13	92,999,01	79,965,919
Other income		9,159,336	3,003,861
Operating expenses		(81,505,430)	(82,213,453)
Operating surplus		20,652,925	756,327
Investment revenue	14	8,073,891	192,883
Surplus for the year		28,726,816	949,210

Umzimvubu Local MunicipalityAnnual Financial Statements for the year ended 30 June 2009

Statement of Changes in Net Assets

	Capital	Capitalisation	Total reserves	Accumulated	Total net
	Replacement	Reserve		surplus	assets
Figures in Rand	Reserve				
Opening balance as previously	-	-	-	62,562,725	62,562,725
reported					
Appropriations	<u>-</u>	-	-	(74,183,016)	(74,183,016)
Balance at 01 July 2007	<u>-</u>	-		(11,620,291)	(11,620,291)
Changes in net assets					
Surplus for the year	<u>-</u>	-	-	949,210	949,210
Total changes	<u>-</u>	-	-	949,210	949,210
Balance at 01 July 2008	<u>-</u>	-	-	(10,671,081)	(10,671,081)
Changes in net assets					
Surplus for the year	-	-	-	28,726,816	28,726,816
Transfer of funds to equity	1,821,780	-	1,821,780	-	1,821,780
Appropriations	-	-	-	9,216,817	9,216,817
Transfer to capital reserve fund	-	265,785,712	265,785,712	-	265,785,712
Transfer of funds to equity	-	-	-	4,754,888	4,754,888
Transfer of funds to equity	-	-	-	1,742,733	1,742,733
Transfer of funds to equity	-	-	-	73,423,132	73,423,132
Transfer to the unspent grant	-	-	-	(63,429,853)	(63,429,853)
Umzimvubu Municipality	Draft				2008/2009 Annual Report

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Creation of Capital Replacement 4,754,888 - 4,754,888 - 4,754,888

Reserve

Total changes <u>6,576,668</u> <u>265,785,712</u> <u>272,362,380</u> <u>54,434,533</u> <u>326,796,913</u>

Balance at 30 June 2009 6,576,668 265,785,712 272,362,380 43,763,452 316,125,832

Note(s)

Umzimvubu Local MunicipalityAnnual Financial Statements for the year ended 30 June 2009

Cash Flow Statement

Figures in Rand	Note(s)	2009	2008
Cash flows from operating activities			
Cash receipts from customers		85,178,434	84,109,661
Cash paid to suppliers and employees		(67,778,899)	(141,251,439)
Cash generated from (used in) operations	21	17,399,535	(57,141,778)
Interest income		8,073,891	192,883
Movement in funds and reserves		113,308,965	<u>-</u>
Net cash from operating activities		138,782,391	(56,948,895)
Cash flows from investing activities			
Purchase of property, plant and equipment	6	(30,977,730)	(76,420,050)
Sale of property, plant and equipment	6	153,301	-
Loans redeemed and capital receipts		(92,216,560)	-
Movement in investments		-	80,528,901
Purchase of investment property		<u>(1)</u>	
Net cash from investing activities		(123,040,990)	4,108,851

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Cash flows from financing activities

Movement in project funds		(1,587,862)	136,399
Movement in grants		(78,939,573)	51,059,991
Movement in unspent conditional grants and reserves		48,979,766	-
Statutory Funds		(1,821,781)	-
Movement in long term debtors		-	3,003,899
Grants utilised in trust funds		-	71,332,382
Increase in funds and reserves		<u>-</u>	735,172
Net cash from financing activities		(33,369,450)	126,267,843
Total cash movement for the year		(17,628,049)	73,427,799
Cash at the beginning of the year		71,904,986	(1,522,814)
Net increase (decrease) in cash and cash equivalents	5	54,276,937	71,904,985

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2009

Accounting Policies

1. Presentation of Annual Financial Statements

The financial statements have been prepared on an accrual basis of accounting and are in accordance with the historical cost basis unless otherwise stated. Under this basis the effects of transactions and other events are recognised when they occur and are recognised in the financial statements within the period to which they relate. The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practices (GRAP2), including any interpretation and directives issued by the accounting standards board. However all the standards applicable are not yet effective. The standards are summarised as follows:

Standards of GRAP

Otaridards	OI OITAI
GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 4	The Effects of Changes in Foreign Exchange Rates
GRAP 5	Borrowing costs
GRAP 9	Revenue from Exchange Transactions
GRAP 10	Financial Reporting of Hyperinflationary Economies
GRAP 11	Construction Contracts
GRAP 12	Inventories
GRAP 13	Leases
GRAP 16	Investment Property
GRAP 17	Property, Plant and Equipment
GRAP 18	Segment Reporting
GRAP 19	Provisions, Contingent Liabilities & Contingent Assets
GRAP 23	Revenue from Non Exchange Transactions
GRAP 24	Presentation of Budget Information in Financial Statements
GRAP 100	Non - Current Assets Held for Sale & Discontinued Operations
GRAP 101	Agriculture
GRAP 102	Intangible assets
Directive 1	Repeal of existing transitional provisions in, and consequential amendments to, standards of GRAP
Directive 2	Transitional provisions for the adoption of standards of GRAP by public entities, municipal entities and constitutional institutions

Directive 3	I ransitional provisions for the adoption of standards of GRAP by high capacity municipalities
Directive 4	Transitional provisions for the adoption of standards of GRAP by medium and low capacity municipalities
Directive 5	Determining the GRAP reporting framework Accounting policies for material transactions, events or condi-
	not covered by the above GRAP Standards have been developed in accordance with paragraphs 7, 11 and 3

Determining the GRAP reporting framework Accounting policies for material transactions, events or conditions not covered by the above GRAP Standards have been developed in accordance with paragraphs 7, 11 and 12 of GRAP 3. These accounting policies and the applicable disclosures have been based on the South African Statements of Generally Accepted Accounting Practices (SA GAAP) including any interpretations of such Statements issued by the Accounting Practices Board. A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

Accounting Policies (continued)

These accounting policies are consistent with the previous years, except for the changes set out in note 34 First-time adoption of Generally Recognised Accounting Practice. Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a standard of GRAP. The principal accounting policies adopted in the preparation of these annual financial statements are set out below. The following accounting standards have been issued but are not yet effective as at 30 June 2009 and the municipality have not elected to early adopt:

GRAP 18	Segment Reporting
GRAP 21	Impairment of non-cash-generating assets
GRAP 23	Revenue from Non-Exchange Transactions (Taxes and Transfers)
GRAP 24	Presentation of Budget Information in Financial Statements
GRAP 26	Impairment of cash-generating assets
GRAP 103	Heritage Assets

1.1 Property, plant and equipment

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised. The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment. The municipality has not provided for adjustments to fair value, componentise or create residual values in line with the 3 year exemption provided by transitional provisions issued by directive 4. The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item. The transitional provision applied is directive 4. In terms of the directive on

transitional provisions for medium and low capacity municipalities paragraph 77 states that entities are not required to measure property, plant and equipment for reporting periods beginnings on or after a date within three years following the date of initial adoption of the Standard of GRAP on Property, Plant and Equipment. Thus property, plant and equipment are still measured using the IMFO amounts and are not depreciated. Full compliance with GRAP will occur on the 30 June 2012.

1.2 Financial instruments

Initial recognition

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement. Financial assets and financial liabilities are recognised on the municipality's statement of financial position when the municipality becomes party to the contractual provisions of the instrument.

Receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in the statement of financial performance within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in the statement of financial performance. Trade and other receivables are classified as loans and receivables.

Payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs. Other financial liabilities are measured initially at fair value and subsequently at amortised cost, using the effective interest rate method.

Other loans and receivables

Other financial assets classified as loans and receivables are initially recognised at fair value plus transaction costs, and are subsequently carried at amortised cost less any accumulated impairment. These financial assets are not quoted in an active market and have fixed or determinable payments.

Financial assets at fair value through profit or loss

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned. Investments are measured initially and subsequently at fair value, gains and losses arising from changes in fair value are included in surplus or deficit for the period.

Other loans and receivables

Other financial assets classified as loans and receivables are initially recognised at fair value plus transaction costs, and are subsequently carried at amortised cost less any accumulated impairment. These financial assets are not quoted in an active market and have fixed or determinable payments.

1.3 Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs. When inventories are sold, the carrying amount of those inventories are recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of

inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.4 Going Concern Assumption

These annual financial statements have been prepared on a going concern basis.

1.5 Unspent Conditional Grants

Compulsory convertible preference shares [Compulsory convertible debentures] are compound instruments, consisting of a liability component and a net assets component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible instruments and the fair value assigned to the liability component, representing the embedded option to convert the liability into net assets of the municipality, is included in net assets. Combined units are compound instruments, consisting of a debenture (liability) component and a share (net assets) component. The debentures are carried at amortised cost, and any premium or discount on issue is written off over the redemption period using the effective interest rate method. Issue costs are apportioned between the liability and net assets components of the compound instruments based on their relative carrying amounts at the date of issue. The portion relating to the net assets component is charged directly against net assets.

1.6 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted. The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the municipality's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method. Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. Consideration is given to any event that

could impact the funds up to statement of financial position date where the interim valuation is performed at an earlier date. Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested. To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in the statement of financial performance over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised. Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the municipality is demonstrably committed to curtailment or settlement. When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In the statement of financial performance, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement. The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets. Any asset is limited to unrecognised actuarial losses, plus the present value of available refunds and reduction in future contributions to the plan.

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees. The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

1.7 Provisions and Contingent Liabilities

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision. Provisions are not recognised for future operating deficits. If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision. A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the business or part of a business concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for terminating their services:
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it. After their initial recognition contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised.

1.8 Revenue Recognition

Revenue is derived from a variety of sources which include Rates levied, grants from other tiers of government and revenue from trading activities and other municipal services provided. Revenue is recognised when it is probable that future economic benefits or service potential will flow to the municipality and these benefits can be measured reliably.

1.8.1 Revenue from Exchange Transactions

Service charges relating to Electricity and Water are based on consumption. Meters are read and billed on a monthly basis and revenue is recognized when billed. Estimates of consumption are made monthly when meter readings have not been performed. The estimates of consumption are recognized as revenue when billed. Adjustments to estimates of consumption are made in the billing period when meters have been read. These adjustments are recognized as revenue in the billing period. Sewerage charges are levied and billed on an annual basis based on the municipality's Tariff Policy. Refuse charges are levied and billed on a monthly basis based on the municipality's Tariff Policy. Various services are provided on a prepayment basis in which case no formal billing takes place and revenue is accrued when received. Income in respect of housing rental and installments are accrued monthly in advance. Interest earned on investments is recognised in the Statement of Financial Performance on a time proportionate basis that takes into account the effective yield on the investment. Interest earned on the following investments is not recognised in the Statement of Financial Performance:

- Interest earned on unutilised conditional grants is allocated directly to the unutilized conditional grant creditor, if the grant conditions indicate that interest is payable to the funder. Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- · The municipality has transferred to the buyer the significant risks and rewards of ownership of the goods.

- The municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably. Income for agency services is recognised on a monthly basis once the income collected on behalf of agents has been quantified. The income recognised is in terms of the agency agreement. Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment is brought into use. Where public contributions have been received but the municipality has not met the condition, a liability is recognised (Creditors: Unutilized Grants)

1.8.2 Revenue from non-exchange transactions

Revenue from rates is recognized, net of rebates granted, when the legal entitlement to this revenue arises. A Differential Rating system is applied. In terms of this system assessment rates are levied on the land and improvements value of property and rebates are granted subject to certain conditions. A composite rating system charging different rate tariffs for different categories of ratepayers is employed. Collection charges are recognized when such amounts are legally enforceable. Interest on outstanding debtors is recognized on a time proportionate basis and is charged on all outstanding debtors older than 30 days or part thereof. Fines constitute both spot fines and summonses. Revenue from spot fines is recognised when payment is received, and the revenue from the issuing of summonses is only recognised when collected by the Courts and paid over to the Municipality. Due to the various legal processes that can apply to summonses and the inadequate information received from the Courts, it is not possible to measure this revenue when the summonse is issued. Donations are recognised on a cash receipt basis or where the donation is in the form of property, plant and equipment, when such items of property, plant and equipment are brought into use. Contributed property, plant and equipment is recognised when such items of property, plant and equipment are brought into use. Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

1.9 Turnover

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

1.10 Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.11 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.12 Unauthorised, Irregular, Fruitless and Wasteful Expenditure

All expenditure relating to unauthorised, irregular or fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.13 Presentation of Currency

These annual financial statements are presented in South African Rand and are rounded to the nearest Rand.

1.14 Reserves

Capital replacement reserve (CRR)

In order to finance the future provision of infrastructure and other items of property, plant and equipment from internal sources amounts are transferred out of the accumulated surplus/(deficit) into the Capital Replacement Reserve (CRR) in terms of a Council resolution. The cash in the designated CRR account can only be utilised to finance items of property, plant and equipment. The following provisions are set for the creation and utilisation of the CRR:

- The cash which backs up the CRR is invested until it is utilised. The cash may only be invested in accordance with the investment policy of the municipality.
- Interest earned on the CRR investment is recorded as part of total interest earned in the Statement of Financial Performance. The total interest earned on all the CRR investments of the municipality is transferred to the CRR.
- The CRR may only be utilised for the purpose of purchasing items of property, plant and equipment for the municipality and may not be used for the maintenance of these items.
- · The CRR is reduced and the accumulated surplus/(deficit) credited with corresponding amounts when the funds are utilised.
- If a gain or loss is made on the sale of assets the gain or loss on the sale of assets is reflected in the Statement of Financial Performance. The full proceeds on the sale of all PPE is transferred to the CRR.
- The amounts transferred to the CRR are based on the Municipality's need to finance future capital projects.
- The contribution to the CRR by the relevant votes will be based on the previous year's cost price of the fixed assets controlled by that votes. The Council has three strategic votes as defined by the Municipal Finance Management Act, 2003 (Act 56 of 2003).
- The Council determines annually to contribute between 8% and 12% of the previous year's own income to the CRR.
- · The current year's contribution may only be utilised for financing of capital expenditure in the following year.

Capitalisation reserve

On the implementation of GAMAP/GRAP, the balance on certain funds, created in terms of the various Provincial Ordinances applicable at the time, that had historically been utilised for the acquisition of items of property, plant and equipment have been transferred to a Capitalisation Reserve instead of the accumulated surplus/(deficit) in terms of a directive (budget circular) issued by National Treasury. The balance on the Capitalisation Reserve equals the carrying value of the items of property, plant and equipment financed from the former legislated funds. When items of property, plant and equipment are depreciated, a transfer is made from the Capitalisation Reserve to the accumulated surplus/(deficit). When an item of property, plant and equipment is disposed, the balance in the Capitalisation Reserve relating to such item is transferred to the accumulated surplus/(deficit).

1.15 Post Balance Sheet Events

Recognised amounts in the financials are adjusted to reflect events arising after the balance sheet date that provide evidence of conditions that existed at the balance sheet date. Events after the balance sheet date are indicative of conditions that arose after the balance sheet date is dealt with by way of a note to the financial statements.

1.16 Investment property

Investment property is recognised as an asset when, and only when, it is probable that the future economic benefits that are associated with the investment property will flow to the enterprise, and the cost of the investment property can be measured reliably. Investment property is measured at a R1 value in line with the transition provisions.

1.17 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Operating leases - lessor

Operating lease income is recognised as an income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income. Income for leases is disclosed under revenue in the statement of financial performance.

Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset. This liability is not discounted. Any contingent rents are expensed in the period they are incurred.

1.18 Government grants

Government grants are recognised when there is reasonable assurance that:

the municipality will comply with the conditions attaching to them; and

the grants will be received.

Government grants are recognised as income over the periods necessary to match them with the related costs that they are intended to compensate. A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs is recognised as income of the period in which it becomes receivable. Government grants related to assets, including non-monetary grants at fair value, are presented in the statement of financial position by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset. Grants related to income are presented as a credit in the income statement (separately). Repayment of a grant related to income is applied first against any un-amortised deferred credit set up in respect of the grant. To the extent that the repayment exceeds any such deferred credit, or where no deferred credit exists, the repayment is recognised immediately as an expense. Repayment of a grant related to an asset is recorded by increasing the carrying amount of the asset or reducing the deferred income balance by the amount repayable. The cumulative additional depreciation that would have been recognised to date as an expense in the absence of the grant is recognised immediately as an expense.

1.19 Change in accounting policy

Umzimvubu Local Municipality is a medium capacity municipality and is compelled to convert to the GRAP reporting framework, as at 30 June 2009 treated prospectively. The municipality is therefore required to adhere to standards of GRAP and GAMAP, read with the specific directives issued by the accounting standards board on or before the effective date of 30 June 2009. Directive 4 has been issued specifically for medium to low capacity municipality and provides specific guidelines relating to transitional provisions of GRAP standards for first time reporting. The transitional provisions guidelines amongst others use specifically in the preparation of the financial statements relates to the following:

GRAP 1

GRAP 3

GRAP 12

GRAP 13

GRAP 16

GRAP 17

1.19 Change in accounting policy (continued)

GRAP 1 - Paragraph 5, Sub-paragraph 142, comparative information is not required in respect of financial statements to which the standard is first applied. Paragraph 05, sub-paragraph 144 "All balances in reserves and trust fund accounts that are not represented by cash on the date of transition should be transferred to the opening balance of the accumulated surplus account in the Statement of Changes in Net Assets. There is no legislative requirement to maintain such separate fund accounts".

Applying the standard in the current year led to management transferring all previously held fund and reserves to the accumulated surplus account.

GRAP 17 - Management have elected to adhere to the three year exemption provided by directive 4 with regard to revaluations, impairments, componentisation and residual values. The municipality changed from the IMFO basis of accounting to the GRAP basis of accounting in line with GRAP 3. The specific disclosure as required by paragraph 28 when an initial application as an effect on the current period.

- a) The title of standard all effective GRAP standards as of 30 June 2009
- b) Transitional provisons in line with each relevant GRAP standard read with directive 4.
- c) Nature of the change in accounting policy conversion from IMFO to GRAP.
- d) Description of Transitional provisions in line with directive 4 and the relevant GRAP standards.

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June 2009

Notes to the Annual Financial Statements

Figures in Rand 2009 2008

2. Inventories

There were no reversals or write downs of inventory during the year. Inventory is held at cost. There are no inventory pledged as security for liabilities.

3. Trade and other receivables

	3,244,730	1,692,320
Alfred Nzo District Municipality	766,620	766,620
Value added tax	2,150,674	887,145
Accrued income	321,598	-
Sundry debtors	5,838	38,555

Trade and other receivables past due but not impaired (Alfred Nzo)

Trade and other receivables which are less than 3 months past due are not considered to be impaired. At 30 June 2009, R 766,620 (2008: R 766,620) were past due but not impaired (Alfred NZO). This amount was raised on the transfer of water from the Local Municipality to the District Municipality. A provision has been made for the entire amount.

4. Consumer debtors

Gross balances

	Rates and Refuse		4,311,054	<u>-</u>
	Less: Provision for bad debts			
	Rates and Refuse		(3,265,723)	<u>-</u>
	Net balance			
	Rates		1,045,331	<u>-</u>
	Rates			
	Current (0 -30 days)		404,999	-
	31 - 60 days		110,950	-
ı	61 - 90 days		325,357	-
	> 90 days		2,846,974	<u> </u>
			3,688,280	_
	Reconciliation of bad debt provision			
	Contributions to provision		3,009,097	<u>-</u>
·	5. Cash and cash equivalents			
	Cash and cash equivalents consist of:			
	Cash on hand		7,298	6,869
	Bank balances - Current Account		66,002,446	82,349,216
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 Bank overdraft
 - (10,451,099)

 66,009,744
 71,904,986

Current assets 66,009,744 82,356,085

Current liabilities - (10,451,099)

66,009,744 71,904,986

The Municipality has the following bank accounts:

Cheque account (Primary bank account)

First National Bank - Mt Frere: 62022183727

Opening balance: R 2 112 972 (bank balance)

Closing balance: R 2 093 331 (bank balance)

R 19 641 (Movement)

6. Property, plant and equipment

	2009		2008				
	Cost /	Accumulated	Carrying value	Cost /	Accumulated	Carrying value	
	Valuation	depreciation		Valuation	depreciation		
Land and Buildings	21,356,318	-	21,356,318	27,351,819	-	27,351,819	
Infrastructure	198,977,818	-	198,977,818	183,401,294	-	183,401,294	
Community	26,343,452	-	26,343,452	13,174,833	-	13,174,833	
Other	49,629,213	-	49,629,213	41,857,766	-	41,857,766	
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Loans redeemed and other	er -	-	- (265,785,71	2)	- (265,785,712)
Capital receipts					
Total	296,306,801	- 296,306,80	1	-	<u> </u>
Reconciliation of proper	ty, plant and equipment - 20	09			
		Opening	Additions	Disposals	Total
		Balance			
Land and Buildings		21,356,319	-	(1)	21,356,319
Infrastructure		196,788,327	29,727,966	-	198,977,818
Community		26,343,452	-	-	26,343,452
Other		21,403,694	1,143,683	(456,640)	49,629,212
Loans redeemed and other	er capital receipts	(265,891,792)	265,891,792		-
		<u>-</u>	296,763,441	(456,641)	296,306,801
		Opening	Additions	Disposals	Total
		Balance			
Land and Building		23,940,867	154,770	-	21,356,319
Infrastructure		112,893,885	70,662,179	-	196,788,327
Community		1,235,643	2,020,539	(614)	26,343,452
Other		51,295,881	3,582,562	-	21,403,694
Loans redeemed and other	er capital receipts	(265,891,792)	-	-	(265,891,792)
		(76,525,516)	76,420,050	(614)	<u>-</u>

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

The Municipality is in the process of exercising Directive 4 and the transitional provision as stated in GAMAP 17 for the valuation of property, plant and equipment. We have opted for the three (3) year exemption on fair valuation of assets and should be full compliant by 30 June 2011.

7. Investment property

The Municipality is taking advantage of the transitional provision, directive 4. Full compliance with GRAP will occur on the 30 June 2012. Investment property is currently being carried at R1.

8. Payables

Trade payables <u>649,900</u> 87,676

9. Employee benefits

Reconciliation of employee benefits - 2009

	Opening	Additions	Reversed	Total
	Balance		during the year	
Provision for staff leave	1,831,495	851,109	(1,831,495)	851,109
Provision for Alfred Nzo District Municipality		766,620	-	766,620
	1,831,495	1,617,729	(1,831,495)	1,617,729

Reconciliation of employee benefits - 2008

Opening

Total

Balance

Provision for staff leave

1,831,495 1,831,495

10. Unspent conditional grants and reserves

Unutilised conditional grants are reflected on the Statement of Financial Position as a

creditor - Unutilised conditional grants. They represent unspent government grants,

subsidies and contributions from the public. This creditor always has to be backed by cash. The following provisions are set for the creation and utilisation of this creditor:

- The cash which backs up the creditor is invested until it is utilised.
- Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor. If it is the Municipality's interest it is recognised as interest earned in the Statement of Financial Performance.
- Whenever an asset is purchased out of the unutilised conditional grant an amount equal to the cost price of the asset purchased is transferred from the Unutilised Conditional Grant into the statement of financial performance as revenue. Thereafter an equal amount is transferred on the Statement of changes in net assets to a Government Grant Reserve. This reserve is equal to the remaining depreciable value (book value) of assets purchased out of the Unutilised Conditional Grants. The Government Grant Reserve is used to offset depreciation charged on assets purchased out of the Unutilised Conditional Grants.

11. Project funds

Municipal Support Programme

1,587,945

Mt Ayliff PHP

(83)

- 1,587,862

All of the project funds have been transferred to the accumulated surplus account on conversion to GRAP.

12. Statutory funds

Revolving fund <u>- 1,821,781</u>

Revolving fund has been transferred to the accumulated surplus account on conversion to GRAP.

13. Revenue

Provincial Government 49,014,811 28,988,379

Equitable share 43,984,208 50,977,540

92,999,019 79,965,919

14. Investment revenue

Interest income 8,073,891 192,883

15. Assessment rates

Valued properties

Rate tariff 4,775,265 4,475,678

Property rates in the prior period were raised as nil and were subsequently measured in the current period. The effect of the non disclosure of rates led to

an understatement of rates.

LGSETA

16. Government grants and subsidies

	2002171		00,070	000,010	
	Municipal Infrastructure Grant		17,468,001	28,120,063	
	Financial Management Grant		500,000	500,000	
	Operating reserves		9,500,000	-	
	Roll over projects		20,781,139	-	
	MSIG		<u>735,001</u>	<u>-</u>	
			<u>49,014,811</u>	28,988,379	
	17. Employee related costs				
	Basic		14,994,578	20,059,877	
	Bonus		732,623	-	
	Medical aid		1,303,730	60,402	
	UIF		157,340	27,455	
	SDL		202,638	13,425	
	Leave pay		851,109	-	
	Cell phone allowance		110,832	-	
	Standby allowance		113,409	-	
	Protective clothing		-	7,913	
	Pension fund		1,294,163	42,380	
	Travelling allowance		5,534,564	45,679	
Umzimvubu	Municipality	Draft		2008/2	2009 Annual Report

368,316

30,670

Housing benefits and allowances	1,263,107	106,390
Providend fund	1,481,963	-
Other	<u>54,354</u>	<u>-</u>
	28,094,410	20,363,521
Remuneration of municipal manager - T. Nota		
Annual Remuneration	522,600	-
Contributions to UIF, Medical and Pension Funds	84,595	-
Housing Allowance	52,815	-
Cellphone allowance	144,000	
	804,010	
Remuneration of chief finance officer - M. Hloba		
Annual Remuneration	353,124	-
Contributions to UIF, Medical and Pension Funds	45,361	-
Housing Allowance	71,344	-
C / Allowance	136,187	<u> </u>
	606,016	_

Remuneration of Infrastructure and Planning - S.P Ntonga

Annual Remuneration	358,126	-
Contributions to UIF, Medical and Pension Funds	54,412	-
Housing Allowance	38,334	-
C / Allowance	150,262	
	601,134	
Remuneration of Corporate Services Officer - N.Qaba		
Annual Remuneration	247,000	-
Contributions to UIF, Medical and Pension Funds	27,800	-
Housing allowance	21,200	-
C / Allowance	84,000	
	380,000	<u>-</u>
Remuneration of Community Services Officer - F. Ndinisa		
Annual Remuneration	247,000	-
Contributions to UIF, Medical and Pension Funds	49,000	-
Housing Allowance	84,000	<u>-</u>
	380,000	

Remuneration of councillors

	Annual Remuneration		6,392,772	-	
	Contributions to UIF, Medical and Pension	Funds	<u>2,544,600</u>	<u>-</u>	
			<u>8,937,372</u>	<u>-</u>	
	18. Auditors' remuneration				
	Audit fees		790,929	173,235	
	19. General expenses				
	Accounting fees		2,274,775	569,087	
	Advertising		308,399	105,359	
	Approval of infrastructure		-	13,234	
	Bank charges		128,973	85,595	
	Books and publications		351,552	98,000	
	Capital expenditure		19,622,704	-	
	Cleaning		1,537,871	530,655	
	Communication strategy		19,244	105,360	
	Community development and training		805,021	224,061	
	Conferences and seminars		979,490	375,376	
	Consulting and professional fees		4,592,024	1,080,696	
	Consumables		31,187	9,487	
Umzimvubu I	Municipality	Draft		2008/2	2009 Annual Report

Entertainment	58,550	298,181
Fuel and oil	449,441	50,999
Insurance	314,980	1,395,551
Lease expenses	179,229	-
Legal fees	85,937	352,023
Levies	2,665	-
Loss on disposal of assets	456,640	-
Marketing	310,921	11,124
Other expenses	8,817,089	1,248,102
Packaging	531,071	20,000
Postage and courier	75,222	90,503
Printing and stationery	842,537	498,175
Productions	232,918	885,049
Promotions	355,708	183,428
Public safety	11,740	35,627
Rental	437,484	572,454
Security	1,318,526	832,460
Staff welfare	51,657	2,300
Sundry expenses	22,880	2,070,162
Survey and planning	3,000,809	200,000
Telephone and fax	1,538,672	1,164,254
Training	1,377,641	524,366
	<u>51,123,557</u>	13,631,668

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20. Appropriations

Prior year bank reconciliation clearing	8,542,664	(307,500)
Write off of debtors	-	(1,045,612)
Prior year adjustments for audit issues raised in 2007	-	(72,826,682)
Other	-	(3,222)
Interest on investments received for prior period	674,153	<u>-</u>
	9,216,817	(74,183,016)
21. Cash generated by operations		
Surplus for the year	28,726,816	949,210
Adjustments in respect of :		
Deficit on sale of assets	456,640	-
Interest received	(8,073,891)	(192,883)
Movements in provisions	(980,386)	(157,487)
Appropriations for the year	(694,209)	(72,829,903)
Changes in working capital:		
Trade and other receivables	(1,552,324)	19,150,226
Consumer debtors	(1,045,331)	-
Payables	562,220	(4,796,113)
Statutory funds	<u>-</u>	735,172
	17,399,535	(57,141,778)

22. Changes in accounting policy

The annual financial statements have been prepared in accordance with South African Statements of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption of the following new or revised standards.

- IFRS5 Non-current Assets Held for Sale and Discontinued Operations
- IAS1 Presentation of Financial Statements
- IAS2 Inventories
- IAS10 Events after the Balance Sheet Date
- IAS17 Leases
- IAS21 The Effects of Changes in Foreign Exchange Rates
- IAS24 Related Party Disclosures
- IAS28 Investments in Associates
- IAS31 Interest in Joint Ventures
- IAS32 Financial Instruments: Disclosure and Presentation
- IAS33 Earnings per Share
- IAS39 Financial Instruments: Recognition and Measurement
- IAS40 Investment Property

23. Level of Rounding

The annual financial statements are stated at rand values. The day-to-day transactions are represented in rand & cent value and are rounded to the nearest rand.

24.	Change	in	accounting	estimates
	Oliuligo		accounting	ootiiiiato.

There has been no change in accounting estimates during the year.

25. Operating Lease Expense

Minimum lease payments due

Present value of minimum lease payments	479.650	665.323
- in second to fifth year inclusive	287,378	479,651
- within one year	192,272	185,672

It is municipality has two operating leases.

The Gestetner lease is for printing equipment and is leased over a period of three years. The lease does not carry an escalation clause.

The lease of immovable property is for office space and is leased over a period of four year. The lease carries an escalation clause of 10% per annum.

26. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

27. Additional disclosure in terms of Municipal Finance Management Act Audit fees

Amount paid - current year <u>790,930</u>

PAYE and UIF

Amount paid - current year 4,352,989

Pension and Medical Aid Deductions
Amount paid - current year <u>461,070</u> -
VAT
Vat is payable on the payments basis. Only once payment is received from debtors is vat paid over to SARS. 28. Directive 4
Umzimvubu Local Municipality is classified as a meduim capacity Municipality. Management have elected to migrate
account frameworks from Info to GRAP and are utilising the special exemptions offered by Directive 4 issued by ASB. The key elements of this directive is as follows:
1) Comparative information is not required to be adjusted for prior year compliance. All adjusting journals are processed to 01 July 2008.
2) All funds and reserves will be transferred to Accumulated Surplus/ (Deficit) for the year.
3) GRAP 17 - Para 77 - Entities are not required to measure property, plant and equipment for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Property, Plant and Equipment subject to the provisions of paragraph 79 and 80.
29. Related parties transactions

Loans to related parties

Management have identified no related party transactions that require note disclosure in the annual financial statements.

30. Quality Assurance

As part of Quality Assurance, the financial statements are reviewed by Mzimela and Company.

31. Post Balance Sheet Events

No events subsequent to balance sheet date have been identified.

32. Foreign Currency Transactions

The Municipality will not incur a foreign currency liability other than that allowed by the MFMA.

33. Commitments

Capital committments

Projects:

•	zwelijikile Recr. Centre sports Field	467,268	-
•	Malokhwe-Manxiweni AR	529,865	-
•	Cabazana AR	81,547	-
•	Sidakeni-Sipolweni AR	88,543	-
•	Gugwini AR	231,064	-
•	Ngonyameni-Mombeni P/S AR	19,359	-
•	Mnqwane-Tela A/R	320,685	-
•	Buffnek-Ngonyameni AR Maintanance	506,268	-
•	Baphuthini AR	292,691	-

•	Backup Generator	129,780	-
•	Gubhuzi AR	1,205,960	-
•	Luxwesa-Saphukanduku AR & Bridge	1,187,344	-
•	Gqala AR	818,144	-
•	Xhameni AR	433,472	-
•	Niyona AR & Bridge	731,500	-
•	Mvuzi-Mtshazi AR	1,184,913	-
•	Lwandlana AR	1,260,083	-
•	Xholoti-Mahobe	209,276	-

34. First-time adoption of International Financial Reporting Standards

The municipality has applied GRAP 1, First-time adoption of Generally Recognised Accounting Practice, to provide a

starting point for the reporting under Generally Recognised Accounting Practice. On principle these standards have been applied prospectively.

The date of transition was 1 July 2008 and the effect of the transition was as follows.

Reconciliation of equity at 30 June 2009

	Note	As reported	Effects of	GRAP
		under previous	transition to	
		IMFO	GRAP	
Property, plant and equipment		-	123,040,990	123,040,990
Trade and other receivables		2,923,132	-	2,923,132
Inventories		9,711,677	-	9,711,677
Consumer debtors		1,045,886	-	1,045,886
Cash and cash equivalents		66,009,744	-	66,009,744
Total current assets		79,690,439	-	79,690,439
Project funds		1,742,650	(1,742,650)	-
Statutory funds		4,754,888	(4,754,888)	-
Trust Funds		57,385,524	(57,385,524)	-
Trade and other payables		1,279,526	-	1,279,526
Provisions		851,109	-	851,109
Unspent conditional grants and reserves		<u>-</u> _	50,901,366	50,901,366
Total liabilities		66,013,697	(12,981,696)	53,032,001
Total assets less total liabilities		13,676,742	136,022,686	149,699,428

Total Net assets	36.022.819	113.997.652	150.020.471
Capitalisation Reserve	<u>-</u> _	93,205,073	93,205,073
Capital Replacement Reserve	-	4,754,888	4,754,888
Accumulated surplus	36,022,819	16,037,691	52,060,510

35. Prior period errors

Subsequent to the prior year annual financial statements, material misstatements were identified and required adjustments in the prior period annual financial statements to be made.

The correction of the errors results in adjustments as follows:

Statement of financial position

Cash and cash equivalents	-	(54,916,476)
Investments	-	6,869
Trade and other receivables	-	(1,045,612)
Accumulated surplus	-	5,595,219

Statement of financial performance

Grants and subsidies	-	3,158,563
Other income	-	3,196,743
Salaries, wages and allowances	-	(483,455)
General expenses	-	41,006
Repairs and maintenance	-	245,678
Contribution to fixed assets	_	17.717.495

Umzimvubu Local MunicipalityAnnual Financial Statements for the year ended 30 June 2009

Detailed Income statement

	Figures in Rand		Note(s)	2009	2008	
	Revenue					
	Government grants		16	49,014,811	28,988,379	
	Equitable share			43,984,208	50,977,540	
	Pound fees			274,368	186,256	
	Rental of facilities and equipment			863,320	118,551	
	Other income			1,150,584	3,038	
	Licenses and permits			882,270	2,585,935	
	Fines			79,605	110,080	
	Property rates and refuse			5,909,190	-	
	Interest received - investment		14	8,073,891	192,883	
	Total Revenue			110,232,247	83,162,662	
	Expenditure					
	Employee related costs		17	(28,095,409)	(20,363,521)	
	Disaster management and plan			(266,290)	(222,150)	
	SPU Programs			(682,358)	(47,082,743)	
	Repairs and maintenance			(928,384)	(372,060)	
	Strategic planning and team building			(409,418)	(541,311)	
Umzimvubu N	Nunicipality	Draft			2008/2009 A	nnual Report

General Expenses 19 (51,123,557) (13,631,668)

Total Expenditure (81,505,416) (82,213,453)

Surplus for the year <u>28,726,831</u> <u>949,209</u>

Attributable to:

Net Asset holders of the controlling entity 28,726,831 949,209

4.2 Annual Performance as per key performance indicators in financial viability

	Indicator name	Target set for the year	Achievement level during the	Achievement percentage
		R(000)	year R(000)	during the year
1	Percentage of expenditure of capital budget	9,697,762	9,697,762	100%
		Target set for the year (35%) R(000)	Achievement level during the year R(000)	Achievement percentage during the year vs. the operational budget
2	Salary budget as a percentage of the total operational budget	36,552,190	36,552,190	68%
		Target set for the year (20% or less) R(000)	Achievement level during the year R(000)	Achievement percentage during the year vs. the actual revenue
3	Total actual trade creditors as a percentage of total actual revenue	649,900	649,900	0,7%
		Target set for the year (80% and less) R(000)	Achievement level during the year R(000)	Achievement percentage during the year
4	Total municipal own revenue as a percentage of the total budget	8,073,891	8,073,891	
		Target set for the year R(000)	Achievement level during the year R(000)	Achievement percentage during the year
5	Rate of municipal debt reduction	0%	0%	0%
6	Percentage of MIG budget appropriately spent			
7	Percentage of MSIG budget appropriately spent			

4.3 The audit committee functionality

The audit committee forms part of the municipality's community structures. The committee ensure that the municipality obtains an unqualified report from the Auditor General. This has been a challenge for the municipality in past financial years. Their strategic plans includes addressing matters reflected in audit reports and the roll out of a financial management system.

4.4 Arrears in property rates and service charges

Bills are sent to the consumers on a monthly basis. Outstanding debts over 120 days are sent to debt collectors.





The municipality encourages public participation

Part 2: KPA Achievement Report

Chapter 5: Good governance and public participation- KPA 5

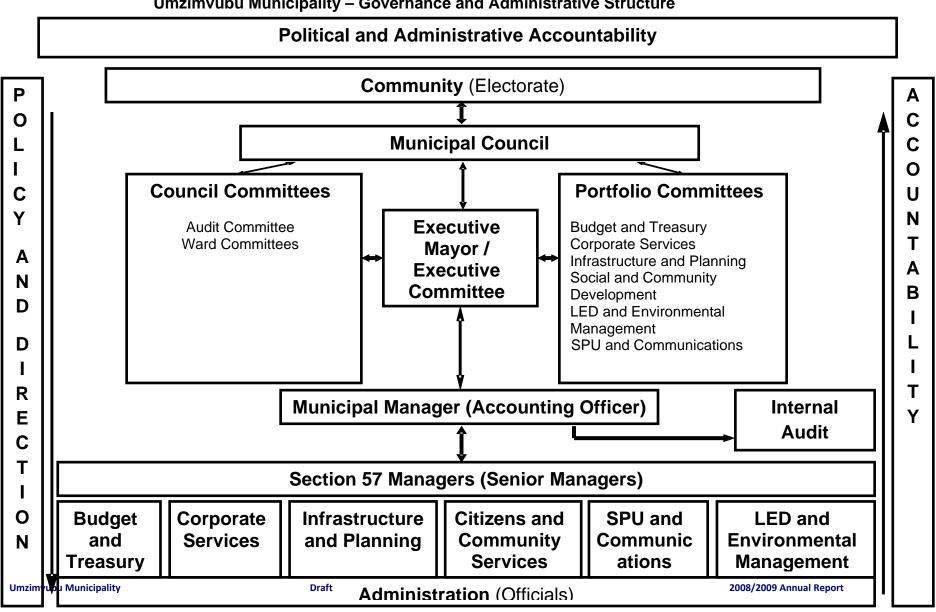
5.1 Overview of the executive council functions and achievements

The Umzimvubu Municipality is a Category B Municipality (local municipality) as defined under section 3 of the Local Government: Municipal Structures Act No. 117 of 1998 (Municipal Structures Act). The municipality is governed through a Council that utilises the plenary type of executive system. The Council is made up of 46 Councillors. There is an Executive Committee the functions of the which are supported by three multi-party Portfolio Committees, in the form of the Planning and Infrastructure Committee; Administration, Human Resources and Finance Committee and Community and Social Development Committee. The Accounting Officer (Municipal Manager) and section 57 managers (Local Government: Municipal Systems Act No. 32 of 2000) are invited to Council, Executive Committee and Portfolio Committee meetings to represent the municipality's administration and to give an account of the achievement against targets set as part of the mandate obtained from the community and Council, as community representatives, in the form of the IDP, budget, strategic and operational plans and the Service Delivery and Budget Implementation Plan (SDBIP).

The speaker of the executive council is Cllr.S.T.Tshekela. Special council meetings are called by the speaker when deemed necessary. The Accounting Officer (Municipal Manager) and all section 57 managers are invited to Council, Executive Committee and Portfolio committee meetings to represent the municipality's administration and to give an account of achievements against targets set as part of the mandate obtained from the community and the Council. The municipality has established ward committees for each of the municipality's 24 wards and these committees are chaired by the Councillor representing that ward in the Council. The ward committees are established for purposes of enhancing participatory democracy in local government and to make recommendations on any matter affecting their relevant wards. The municipality has made administrative arrangements to enable ward committees to perform their functions and exercise their powers effectively and is continuously looking at provision of capacity building and development opportunities for committee members as a means of enhancing their understanding and appreciation of the concept of developmental local government and thus improve their respective contribution to the effectiveness of the ward committee structures. The diagram below is an illustrative overview of Umzimvubu Municipality's governance and administrative structures.

5.2 **Umzimvubu Municipality Governance and Administrative Structure**

Umzimvubu Municipality – Governance and Administrative Structure



embers of committee	Number of ordinary	Number of meetings attended	Number of meetings absent
	meetings scheduled		

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Draft

2008/2009 Annual Report

Attendance report of council meetings:

Umzimvubu Municipality

Special council meetings Date of meetings:

Members of committee	Number of special meetings scheduled	Number of meetings attended	Number of meetings absent

Attendance Report of Standing Committees:

Infrastructure Standing Committee

Dates of meetings	Number of members in attendance at meeting	Number of members absent from meeting	Average attendance by members at each meeting
05/05/2008	7	2	77.78%
17/06/2008	6	3	66.67%
04/09/2008	5	4	55.56%
17/10/2008	7	2	77.78%
11/12/2008	8	1	88.89%
Average Attendance:			73.34%

Citizen and Community Services Standing Committee

Dates of meetings	Number of members in attendance at meeting	Number of members absent from meeting	Average attendance by members at each meeting
11/08/2008	6	0	100%
18/09/2008	6	0	100%
14/10/2008	4	2	66.67%
04/12/2008	4	2	66.67%
16/03/2009	5	1	83.33%
05/05/2009	5	1	83.33%
Average Attendance:			83.33%

SPU and Communications Standing Committee

Dates of meetings	Number of members in attendance at meeting	Number of members absent from meeting	Average attendance by members at each meeting
22/08/2008	6	1	85.71%
19/09/2008	6	1	85.71%
08/12/2008	7	0	100%
06/05/2009	5	2	71.43%
17/06/2009	7	0	100%
Average Attendance:			88.57%

LED and Environmental Services Standing Committee

EED and Environment	ar cervices etailaring committee		
Dates of meetings	Number of members in attendance at meeting	Number of members absent from meeting	Average attendance by members at each meeting
10/09/2008	6	0	100%
03/12/2008	6	0	100%
17/02/2009	5	1	83.33%
08/04/2009	6	0	100%
09/06/2009	5	1	83.33%
Average Attendance:			93.33%

Corporate Services Standing Committee

Dates of meetings	Number of members in attendance at meeting	Number of members absent from meeting	Average attendance by members at each meeting
28/07/2008	6	0	100%
08/12/2008	6	0	100%
19/02/2009	6	0	100%

04/05/2009	6	0	100%
19/06/2009	5	1	83.33%
Average Attendance:			96.67%

Budget and Treasury Standing Committee

Dates of meetings	Number of members in attendance at meeting	Number of members absent from meeting	Average attendance by members at each meeting
10/08/2008	5	3	62.50%
15/09/2008	6	2	75%
07/12/2008	5	3	62.50%
17/03/2009	5	3	62.50%
16/06/2009	8	0	100%
Average Attendance:			72.50%

5.2 Public participation and consultation

This function is the responsibility of the Communication and Special Projects Unit. The aim is to arouse public awareness and participation on areas such as the IDP, PMS, Budget and project related issues. The municipaity embarks on a number of council open days, policy awareness meetings and various calendar events each financial year to draw the attention of the public.

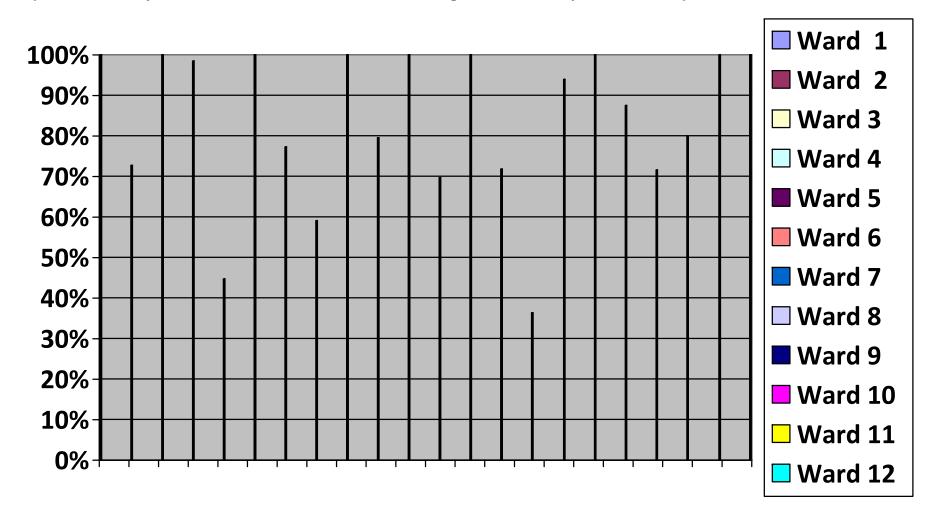
5.3 Ward committee' establishment and functionality

The municipality has over the past financial year paid close attention to the performance of its governance structures, particularly that of its ward committees. The municipality has attempted to address the challenges of lack of understanding of local government legislation, rural vastness, lack of institutional capacity and limited and resources to implement programmes by facilitating training of secretaries and administrative support personnel on meeting procedures, minute-taking and record keeping and also training ward committee members on their roles and responsibilities and the implications of various legislative mandates. These initiatives have fostered good relationships with all ward committees and have also assisted in the establishment of functioning ward committees.

Ward Committee Meetings: Attendance

Ward Councillor	Ward	Number of members	Percentage of scheduled	Average attendance by all
			meetings held	members
Cllr. S. Tshekela	Ward 1	11	100%	100%
Cllr. M. Mataka	Ward 2	11	75.00%	72.73%
Cllr. K. Phangwa	Ward 3	11	100%	100%
Cllr. M.N. Mzaza	Ward 4	11	100%	98.48%
Cllr. A.N. Senzela	Ward 5	11	100%	44.70%
Cllr. Z.A. Gwebani	Ward 6	11	100%	100%
Cllr. M. Ntsengwane	Ward 7	11	66.67%	77.27%
Cllr. A.N. Mjokane	Ward 8	11	50.00%	59.09%
Cllr. S.P. Myingwa	Ward 9	11	66.67%	100%
Cllr. E.L. Sishuba	Ward 10	11	33.33%	79.55%
Cllr. S.K. Mnukwa	Ward 11	11	16.67%	100%
Cllr. N.P. Cezula	Ward 12	11	50.00%	69.70%
Cllr. M.V. Makaula	Ward 13	11	75.00%	100%
Cllr. L.M. Ngqaimbana	Ward 14	11	83.33%	71.82%
Cllr. N. Kwapuna	Ward 15	11	16.67%	36.36%
Cllr. L.L. Sikisi	Ward 16	Information could not be found		
Cllr. B.Z. Diko	Ward 17	11	25.00%	93.94%
Cllr. M.S. Socikwa	Ward 18	11	25.00%	100%
Cllr. M.M. Jeke	Ward 19	11	66.67%	87.50%
Cllr. X. Lungu	Ward 20	11	66.67%	71.59%
Cllr. M.V. Mapekula	Ward 21	11	41.67%	80.00%
Cllr. U.G. Makanda	Ward 22	Information could not be found		
Clir. P. Mbedu	Ward 23	11	91.67%	100%
Cllr. A.V. Bulana	Ward 24	10	50.00%	100%

Graphical summary of Ward Committee attendance: Average attendance by all members per ward committee





Ward 22 Community Hall

Part 3: Functional Area Reporting and Annexure

6.1 Departmental overview

Manager: Mr. S. Kulu

Special Programmes Unit (SPU) and Communications

Objectives:

- Proper consultation between Council and communities;
- Establish communication forum for stakeholder feedback and participation
- To provide executive support to the office of the Mayor, Chief Whip and Speaker
- To give capacity building to special groups so as to enable them to participate fully in service delivery
- To ensure compliance and adherence to protocol standards and procedures in all official and ceremonial activities of the
- municipality

	Divisions
Communications	
Special programmes	

Corporate Services Department

Manager: Mrs. N. Kubone Objectives:

- Improvement of the skills levels of Councilors and officials
- establishment of customer care centres
- proper consultation between Council and communities
- proper management systems
- proper information technology systems
- productivity of staff
- adequately trained and skilled staff
- promotion of equity, especially regarding disadvantaged people

Divisions

Human Resources (HR)

Administration

Citizens and Community Development

Manager: Mr. M. Sineke

Objectives:

- Reduction of the spread of HIV / AIDS
- community development
- air and water pollution
- provision of housing
- reduction of the crime rate
- proper traffic safety
- proper disaster management

Divisions

Public safety and security services

Social and community development services

Disaster management services

Budget and Treasury

Manager: Mr. M. Hloba

Objectives:

- Improvement of the level of payment of services
- proper revenue base
- applicable rates and taxes according to the level of service provided
- proper billing systems

Divisions
Revenue management
Expenditure management
Budget management
Asset and liability management
Grants and investment
Supply chain management

LED and Environmental Management



Manager: Ms. P. Vitshima

Objectives:

- Job creation
- local economic development

Divisions

LED

Environmental management

Tourism

Infrastructure and Planning

Manager: Mr. S. Ntonga Objectives:

- Roads, stormwater and bridge
- electricity
- water
- sanitation
- refuse removal
- housing
- cemeteries
- community facilities
- open spaces
- health care centres
- recreational facilities

Divisions

Roads and stormwater

Public facilities and amenities

Infrastructure maintenance

Part 3: Functional Area Reporting and Annexure

6.2 Service Delivery Reporting

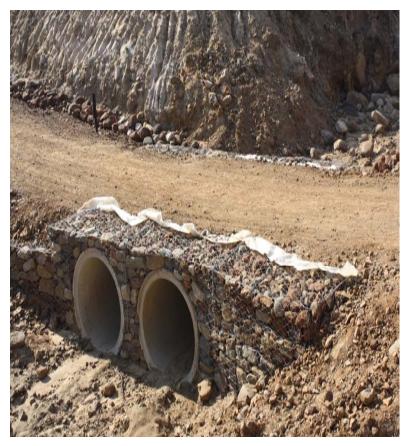
Office of the Municipal Manager

PROJECT	CURRENT STATUS	CAPEX	OPEX	REVENUE	KPI: OUTPUT	KPI: OUTCOME	% Targets achieved	Challenges	Plan to improve performance
IDP Review	Ongoing annual project	NIL	150, 000	NIL	Development of the IDP review 2009/10	Review of the IDP for the 2009//2010 financial year	100%	Not Applicable	Not Applicable
PMS Review	Ongoing annual project	NIL	150, 000	NIL	Review of PMS 2009/10	Review and update of PMS for the 2009/2010 financial year	100%	Implementation of the PMS has not yet taken place	To prioritise the implementation of the PMS
Risk management	Ongoing annual project	NIL	100, 000	NIL	Risk profiling of the municipality	Ensure that the municipality has a sound risk management system	100%	Not Applicable	Not Applicable

Infrastructure and Planning Department:1. Programme: Roads infrastructure and related services

PROJECT	CURRENT STATUS	CAPEX	OPEX	REVENUE	KPI: OUTPUT	KPI: OUTCOME	% Targets achieved	Challenges	Plan to improve performance
Viability study for middle income housing		NIL	150, 000	NIL	Conduct a study on viability study on housing delivery	Conduct a viability study to aid in the eradication of housing backlogs		The municipality is behind on service delivery in the area of middle income housing	Prioritise the eradication of this backlog
Town planning scheme		NIL	300, 000	NIL	Review of town planning scheme	Review and if necessary, amend the town planning scheme		Not Applicable	Not Applicable
Land use management		NIL	400, 000	NIL	Development of a land use management system	Development of a land use management system		The municipality is yet to establish the exact land that belongs to it	Establish which land belongs to the municipality
Planning and survey for all rural areas		2, 300,000	NIL	NIL	Conduct planning and survey for rural areas	Conduct planning and survey for rural areas		Not Applicable	Not Applicable
Mt Frere cemetery		162, 000	NIL	NIL	Study for the upgrading of Mt Frere cemetery	Develop a plan for the upgrade of the Mt Frere cemetery		Mt. Frere cemetery is in urgent need of upgrading	Prioritise the upgrading of the Mt. Frere cemetery
Land audit		NIL	2, 000,000	NIL	Phase 2 audit for rural areas on land audit	Complete phase 2 of the rural area land audit		Not Applicable	Not Applicable
Spatial Development Framework		NIL	300, 000	NIL	Review of SDF	A reviewed and improved SDF		Not Applicable	Not Applicable
HDF		NIL	300, 000	NIL	Review of HDF	A reviewed and improved HDF		Not Applicable	Not Applicable
Access Roads (All wards)		20, 500,000	NIL	NIL	Upgrading of access road s in all wards	Job creation within community		There is a backlog with respect to service delivery in this area	Prioritise the eradication of this service delivery backlog

Umzimvubu Municipality 2008/2009 Annual Report Draft





Construction of Niyona Bridge

Citizens and Community Services Department

PROJECT	CURRENT STATUS	CAPEX	OPEX	REVENUE	KPI: OUTPUT	KPI: OUTCOME	% Targets achieved	Challenges	Plan to improve performance
Disaster Management	Ongoing	NIL	500, 000	NIL	Primary support for disaster relief	Provide support for those affected by natural disasters		Not Applicable	Timeous response for those affected by natural disasters
HIV / AIDS	Ongoing	NIL	NIL	NIL	Advocacy support to HIV / AIDS	Provide support to all affected by HIV/AIDS		The spread of the disease is increasing from year to year	Minimise the spread of HIV/AIDS by educating and providing support to all affected by HIV/AIDS
Parking		NIL	NIL	NIL	Extend areas designated for parking	Minimise traffic by extending parking areas		Traffic congestions have become a major problem in Mt. Frere	Extension of areas designated for traffic
Community Safety Services	Ongoing	NIL	NIL	NIL	Employ resources to ensure the safety of community members	Employ resources to ensure the safety of community members		Not Applicable	Not Applicable
Cemeteries		NIL	NIL	NIL	Upgrading and maintenance of cemeteries	Upgrading and maintenance of cemeteries		Mt. Frere cemetery is in urgent need of upgrading	Prioritise the upgrading of the Mt. Frere cemetery
Pounds		NIL	700, 000	NIL	Upgrading of pounds	Upgrading of pounds		Stray animals on the streets	Upgrade pounds to accommodate stray animals
Crime prevention strategy		NIL	NIL	NIL	Develop and implement an effective crime prevention strategy	Eradicate criminal activity within the communities		Community members not involved in crime prevention attempts	Educate the community on the importance of involving themselves in the fight against crime

Budget and Treasury Services

1. Programme: MFMA section 72 reports and financial management

PROJECT	CURRENT STATUS	CAPEX	OPEX	REVENUE	KPI: OUTPUT	KPI: OUTCOME	% Targets achieved	Challenges	Plan to improve performance
Incentive for consistent rate payers	Project has not commenced	NIL	50, 000	NIL	Provision of incentive to rate payers who pay their accounts in full consistently before the 7 th of each month	Encourage ratepayers to pay regularly	0%	Community members are not aware of the importance of consistent payments	To offer incentives for timely payment to encourage rate payers
Budget development	Complete	NIL	200, 000	NIL	Development of a MTIEF budgets	To develop a budget that is within the municipality's means	100%	Not Applicable	Not Applicable
Credit control	Ongoing	NIL	40, 000	NIL	Full implementation of credit control policy	A fully functional and effective policy to aid the municipality with credit control	25%	Late payments that result in interest charges	Have clear guidelines as to the control of both creditors and debt collection
Asset management	Ongoing	NIL	100, 000	NIL	Updating of an asset register	Up to date asset register	60%	Record keeping has been a challenge for the municipality	To keep an up to date asset management register for audit purposes as well as for the municipality's own records
Integrated financial management system	Training phase outstanding	NIL	50, 000	NIL	Improve programs on the system	Effective and reliable financial management system	25%	Record keeping has been a challenge during the financial year under review	Improve record keeping by installing reliable and effective financial management systems
Annual financial statements	AFS not fully completed	NIL	NIL	NIL	Conversion of AFS and GAMAP implementation	Compliance with GAMAP regulations and standards	70%	Not Applicable	Not Applicable
Indigent support	Process of registration	NIL	1, 000, 000	NIL	Data collection and subsidy provision for indigents	Provide a service to all community members who qualify	80%	There are members of the community that are indigent that the municipality is not reaching as	Data collection and data cleansing to update the indigent register

								they are not on record	
Revenue strategy	Project has not commenced	NIL	50, 000	NIL	Implementation of the revenue enhancement strategy	To aid the municipality to regularly record revenue	0%	Municipality is striving to maximise it revenue	Implementation of the revenue enhancement strategy
Property rates	Ongoing	NIL	400, 000	NIL	Implementation of property rates requirements	To ensure that all who are required to pay property rates are recorded	45%	Not all customers that are required to pay rates are doing so	Update records and alert those customers of their responsibility to pay rates
Internship program	Ongoing	NIL	NIL	NIL	Remuneration of interns, training, meetings and all related costs	Skills development as well as keeping record of all interns	45%	Not Applicable	Not Applicable
Free Basic Services	Ongoing	NIL	3, 500, 000	NIL	Provision of free basic services and free basic energy to the entire Umzimvubu indigent persons	To ensure that all who qualify for the service to receive the service	15%	There is a backlog in this area of service delivery	Prioritise the eradication of the service delivery backlogs
Supply chain management report	Complete	NIL	NIL	NIL	Listing of all awarded bidders Consolidation report of all awarded bidders per quarter, half-yearly and annually	Compliance with legislation	100%	Not Applicable	Not Applicable
National quarterly, half-yearly and annual reports	Complete				Consolidation of quarterly, half-yearly and annual expenditure	Compliance with legislation	100%	Not Applicable	Not Applicable
Conversion of annual financial statements to GRAP and GAMAP	Complete	NIL	NIL	NIL	GRAP compliant financial statements	Clean audit report	100%	The municipality has had difficulty in this area of management	To have GRAP compliant financial Statements
Submission of GRAP compliant AFS to A G auditing thereof	AFS to be submitted in GRAP format	NIL	NIL	NIL	Submission of GRAP compliant AFS to A G auditing thereof	Higher performing municipality	90%	Not Applicable	Availability of key officials during Audit and prompt correct response to RFI
Adoption of the reviewed supply chain management policy by Council	Complete	NIL	NIL	NIL	Revised Supply Chain Management Policy in line with regulation made in terms of MFMA and NT Regulations	Procurement of goods and services in terms of the new policy. Formation of procurement committees.	100%	Not Applicable	Not Applicable
Supplier Data	Monthly	NIL	NIL	NIL	Proper management of database system.	Acquisition of goods and services from	100%	Not Applicable	Not Applicable

Base update					Verification and accreditation of suppliers	approved suppliers.			
Stores and Stock level analysis and management of stock levels	Ongoing	NIL	NIL	NIL	Review the stock management system Minimum, maximum & re-order level maintained per stock management system	Better demand management	80%	Function still performed by Corporate Services Department	Function to be transferred to BTO as a matter of urgency
Acquisition of integrated IT system	Complete	NIL	NIL	NIL	Acquisition of the integrated finance management system that is compatible with the municipal requirements.	Integrated Financial System which will improve efficiency and financial reporting to Council and N.T.	100%	Not Applicable	Not Applicable
Training of Staff and Managers on the system	Project has not commenced	NIL	NIL	NIL	Trained and motivated staff members	Efficient and effective use of the new financial system	0%	Project has not yet commenced	To be done immediately after finalisation of AFS project
Transfer of data from the old system to the new one.	Complete	NIL	NIL	NIL	Clean and ready to use data in a new financial system	Accurate and internally processed financial information.	100%	Not Applicable	Not Applicable
Investment Register maintenance	Complete	NIL	NIL	NIL	Clear records of all moneys that are in ownership of the municipality.	Realising the best value for money and increase operational income for the municipality	100%	Not Applicable	Not Applicable
IDP & Budget process plan	Complete	NIL	NIL	NIL	Drafting of budget process plan document Adoption of budget process plan by	Compliance with the provision of the MFMA and related legislation	90%	Plan approved by council, however improvement on IDP review time frames still a	IDP Champion to improve timelines management

					Council			challenge	
Reporting and variance analysis	Ongoing	NIL	NIL	NIL	Report submitted to National Treasury by 10th of every month	Compliance with the provision of the MFMA and related legislation	100%	Not Applicable	Not Applicable
MFMA Implementation Strategy	Project has not commenced	NIL	NIL	NIL	Full compliance with MFMA in accordance with NT implementation strategy	Compliance with the provision of the MFMA and related legislation	0%	Project has not commenced	MFMA Implementation plan to be completed and adhered to.
Compilation of a GRAP Compliant fixed asset register for loose and Infra-structure assets	Complete	NIL	NIL	NIL	GRAP compliant Asset Register	Credible records of all assets owned by the Municipality.	100%	Not Applicable	Not Applicable
Development of a credible asset management policy	Project has not commenced	NIL	NIL	NIL	Policy approved by Council and implemented.	Safeguarding of Council Assets.	0%	Not Applicable	Need for municipality to compile a policy
Develop system for internal control and procedures	Project has not commenced	NIL	NIL	NIL	Policy development and approval by Council and implementation	Elimination of risk related to management of assets.	0%	Not Applicable	Need for municipality to compile a policy
Reconciliation of creditors accounts and statements	Ongoing	NIL	NIL	NIL	Verification of invoices to statements.	Correctness of statements; elimination of possible invoice and payment duplication; improved internal control	100%	Some payments are not effected until services are suspended.	Regular monthly payments to be separately recorded
Expenditure forecast and variance analysis	Project has not commenced	NIL	NIL	NIL	Report of monthly expenditure forecast; report on budget versus actual analysis	Cash outflow management; effective financial planning; identification of adverse variances; explanation and	0%	Project has not commenced	Monthly budget cash flow projection to be prepared

						correction of variance			
Bank reconciliations	Ongoing	NIL	NIL	NIL	Verification of bank balances and cash book balances	Early identification of possible fraudulent transactions; identification of possible cash flow crunch	50%	Improper planning and over reliance on consultants	Skills transfer to decrease reliance on consultants
Consolidated report of all withdrawals made	Ongoing	NIL	NIL	NIL	Expenditure report	Review and control of expenditure on regular basis.	50%	Grants register is being prepared	Reconciliation of investment accounts



A view from Niyona Bridge

Corporate Service Department

1. Programme:- Human resources and administration

PROJECT	CURRENT STATUS	CAPEX	OPEX	REVENUE	KPI: OUTPUT	KPI: OUTCOME	% Targets achieved	Challenges	Plan to improve performance
Training and development	Ongoing	NIL	700, 000	NIL	Training and development for staff, councillors, ward committees and ward clerks	Training and skills development of staff, councillors, ward committees and ward clerks		Not Applicable	Not Applicable
Shoulder to shoulder	Ongoing	NIL	120, 000	NIL	Teaming up with other municipalities on similar programmes	Saving financial resources by collaborating with other municipalities on similar projects		Not Applicable	Not Applicable
EAP		NIL	120, 000	NIL	Employee wellness programs	To develop and implement employee wellness programmes		Not Applicable	Continuously improve employee wellness programmes
Policies and by- laws		NIL	150, 000	NIL	Review and development of policies and by-laws	Ensure that policies and by-laws are regularly reviewed and updated		Policies and by- laws that are up to date and adopted by council	Regularly review and update policies and by-laws
Performance management system		NIL	700, 000	NIL	Development of a performance management system	To ensure that the PMS is implemented		Not Applicable	Not Applicable
Strategic planning and team building		NIL	50, 000	NIL	Facilitation of strategic planning and team building	Municipality to provide strategic planning sessions as well as team building exercises		Not Applicable	Not Applicable
Catering	Ongoing	NIL	180, 000	NIL	Provision of catering at meetings	Provision of catering at meetings		Often have the same caterers providing the	Ensure rotation of service providers

							service	
Printing and stationary	Ongoing	NIL	460, 000	NIL	Printing and stationary provision	Printing and stationary provision	Not Applicable	Not Applicable
Cleaning services	Ongoing	NIL	670, 000	NIL	Provision of cleaning to municipal buildings	Provision of cleaning to municipal buildings	Challenges getting emerging businesses to come forward with services	Advertise these opportunities and ensure that emerging businesses are aware

LED, and Environmental Management

PROJECT	CURRENT STATUS	CAPEX	OPEX	REVENUE	KPI: OUTPUT	KPI: OUTCOME	% Targets achieved	Challenges	Plan to improve performance
Kusile block making	Ongoing	300, 000	NIL	NIL	Projects aimed at developing entrepreneurs	Promotion of maintaining sustainable living		Ongoing projects that require regular maintenance	Ensure that projects are an ongoing success by regular upkeep
Phepheni block making	Ongoing	300, 000	NIL	NIL	Projects aimed at developing entrepreneurs	Promotion of maintaining sustainable living		Ongoing projects that require regular maintenance	Ensure that projects are an ongoing success by regular upkeep
Masiphilisane crop production	Ongoing	50, 000	NIL	NIL	Projects aimed at developing entrepreneurs	Promotion of maintaining sustainable living		Ongoing projects that require regular maintenance	Ensure that projects are an ongoing success by regular upkeep
Sipolweni vegetable and crop production	Ongoing	30, 000	NIL	NIL	Projects aimed at developing entrepreneurs	Promotion of maintaining sustainable living		Ongoing projects that require regular maintenance	Ensure that projects are an ongoing success by regular upkeep
Ngwegweni farming	Ongoing	600, 000	NIL	NIL	Projects aimed at developing entrepreneurs	Promotion of maintaining sustainable living		Ongoing projects that require regular maintenance	Ensure that projects are an ongoing success by regular upkeep
Siyacela project	Ongoing	210, 000	NIL	NIL	Projects aimed at developing entrepreneurs	Promotion of maintaining sustainable living		Ongoing projects that require regular maintenance	Ensure that projects are an ongoing success by regular upkeep
Siyacela / Gugwini project	Ongoing	10, 000	NIL	NIL	Projects aimed at developing entrepreneurs	Promotion of maintaining sustainable living		Ongoing projects that require regular maintenance	Ensure that projects are an ongoing success by regular upkeep
Crop production	Ongoing	NIL	NIL	NIL	Projects aimed at developing entrepreneurs	Promotion of maintaining sustainable living		Ongoing projects that require regular maintenance	Ensure that projects are an ongoing success by regular upkeep
Sigidini project	Ongoing	NIL	NIL	NIL	Projects aimed at developing entrepreneurs	Promotion of maintaining sustainable living		Ongoing projects that require regular maintenance	Ensure that projects are an ongoing success by regular upkeep
Betshwana	Ongoing	NIL	NIL	NIL	Projects aimed at developing entrepreneurs	Promotion of maintaining sustainable living		Ongoing projects that require regular maintenance	Ensure that projects are an ongoing success by regular upkeep

Tela spring water project	Ongoing	NIL	NIL	NIL	Projects aimed at developing entrepreneurs	Promotion of maintaining sustainable	Ongoing projects that require regular maintenance	Ensure that projects are an ongoing success
Goose down	Ongoing	NIL	NIL	NIL	Projects aimed at developing entrepreneurs	Promotion of maintaining sustainable living	Ongoing projects that require regular maintenance	by regular upkeep Ensure that projects are an ongoing success by regular upkeep
Crop production	Ongoing	NIL	NIL	NIL	Projects aimed at developing entrepreneurs	Promotion of maintaining sustainable living	Ongoing projects that require regular maintenance	Ensure that projects are an ongoing success by regular upkeep
Massive Food Production	Ongoing	1,000, 000	NIL	NIL	Projects aimed at developing entrepreneurs	Promotion of maintaining sustainable living	Ongoing projects that require regular maintenance	Ensure that projects are an ongoing success by regular upkeep
Livestock Improvement Scheme	Ongoing	NIL	NIL	NIL	Projects aimed at developing entrepreneurs	Promotion of maintaining sustainable living	Ongoing projects that require regular maintenance	Ensure that projects are an ongoing success by regular upkeep
CASP	Ongoing	3,000,000	NIL	NIL	Projects aimed at developing entrepreneurs	Promotion of maintaining sustainable living	Ongoing projects that require regular maintenance	Ensure that projects are an ongoing success by regular upkeep
Siyazondla	Ongoing	3,000,000	NIL	NIL	Projects aimed at developing entrepreneurs	Promotion of maintaining sustainable living	Ongoing projects that require regular maintenance	Ensure that projects are an ongoing success by regular upkeep
Arts & Culture Development	Ongoing	NIL	NIL	NIL	Projects aimed at developing entrepreneurs	Promotion of maintaining sustainable living	Ongoing projects that require regular maintenance	Ensure that projects are an ongoing success by regular upkeep
Anchor Projects						J		
ASGISA initiatives: Biodiesel Biofuel, Hydro water electrical, Livestock value addition		300, 000	NIL	NIL	Feasibility Study & Bankable business plan	To have a business plan that will be a guide to success	Not Applicable	Not Applicable
Forestry Development: Establish pole treatment, Establish charcoal manufacturing Development		300,000	NIL	NIL	Feasibility Study & Bankable business plan	To have a business plan that will be a guide to success	Not Applicable	Not Applicable
IWMP		NIL	NIL	NIL	Feasibility Study & Bankable	To have a business plan		

				business plan	that will be a guide to success		
Game Reserve-	NIL	NIL	NIL	Feasibility Study & Bankable business plan	To have a business plan that will be a guide to success	Not Applicable	Not Applicable
Tourism Belt in ULM- Ntsizwa,Signage,Inf ormation Centre,Ntenetyana Dam	300, 000	NIL	NIL	Feasibility Study & Bankable business plan	To have a business plan that will be a guide to success	Not Applicable	Not Applicable
Revitilization of Irrigation Scheme- DoA	300,000	NIL	NIL	Feasibility Study & Bankable business plan	To have a business plan that will be a guide to success	Irrigation system a vital part of a food production programme	Prioritise the revitilisation of the irrigation system
Fruit Processing – DoA	300, 000	NIL	NIL	Feasibility Study & Bankable business plan	To have a business plan that will be a guide to success	Not Applicable	Not Applicable
Umzimvubu,Kinira, Mvenyane sand mining project	300, 000	NIL	NIL	Feasibility Study & Bankable business plan	To have a business plan that will be a guide to success	Public participation	Ensure that members of the public are aware that projects are for their benefit
Chicken Abbouttor	300, 000	NIL	NIL	Feasibility Study & Bankable business plan	To have a business plan that will be a guide to success	Not Applicable	Not Applicable
Retail Facility	300, 000	NIL	NIL	Feasibility Study & Bankable business plan	To have a business plan that will be a guide to success	Not Applicable	Not Applicable
Spatial Planning & Land Use Planning	300, 000	NIL	NIL	Feasibility Study & Bankable business plan	To have a business plan that will be a guide to success	Municipality is still to establish the areas which belong to it	Prioritise the land audit exercise

Environmental Management * Recycling, Street Trading	300, 000	NIL	NIL	Feasibility Study & Bankable business plan	To have a business plan that will be a guide to success	Not Applicable	Not Applicable
Mbumbazi Thusong Service Center	200, 000	NIL	NIL				
Greening & Food for Trees	800, 000	NIL	NIL	Distribution of Fruit trees & trees for Greening	Distribution of Fruit trees & trees for Greening	Not Applicable	Not Applicable
Hawker stalls	600, 000	NIL	NIL	Provide hawker stalls in town	Provide hawker stalls in town	The unavailability of hawker stalls in town causes chaos in the streets	Build hawker stalls
Food Market	800, 000	NIL	NIL	Projects aimed at developing entrepreneurs	Promotion of maintaining sustainable living	Not Applicable	Not Applicable
Umzintlava Irrigation Scheme	300, 000	NIL	NIL	Revitalise Irrigation Scheme	Promotion of maintaining sustainable living	Irrigation scheme in need of revitilisation	Prioritise the revitilisation of the irrigation scheme
Fencing-Essek, Etyeni, Emabhaceni	800, 000	NIL	NIL	Protection of produce and livestock	Promotion of maintaining sustainable living	Unfenced areas are often vandalized by people and stray animals	Ensure all areas are protected by fences from vandalism
Brick Making – Ward 16 Stone Crushing- Lower Brooksnek	300, 000	NIL	NIL	Projects aimed at developing entrepreneurs	Promotion of maintaining sustainable living	Public participation	Ensure that members are informed that the projects are for their benefits



Equipment to be used in LED projects to promote local entrepreneurship

Special Programmes and Communication

PROJECT	CURRENT STATUS	CAPEX	OPEX	REVENUE	KPI: OUTPUT	KPI: OUTCOME	% Targets achieved	Challenges	Plan to improve performance
Policy development	Ongoing	NIL	60, 000	NIL	Develop policies for all special groups	To have policies that form guidelines by which special groups function		Not Applicable	Not Applicable
SPU training and development		NIL	200, 000	NIL	Roll out capacity building to special groups	Skills development for special groups		Skills shortage	To conscientious about skills development
Gender mainstreaming	Annual	NIL	300, 000	NIL	Development of programs in support of gender mainstreaming	Development of programs in support of gender mainstreaming		The municipality is behind in the area of gender mainstreaming	To prioritise gender mainstreaming
Disability	Annual	NIL	300, 000	NIL	Conduct programmes to address the disabled persons	Conduct programmes aimed at persons with disabilities		A need to develop more programmes aimed at people with disabilities	Develop these programmes that address the needs of people with disabilities
Youth entrepreneurship	Annual	NIL	300, 000	NIL	Training and assisting youth to join the business fraternity	To develop young entrepreneurs		A challenge to arouse an interest from the youth	Ensure that the youth are made aware of opportunities through newsletters and road shows
Children and elderly	Annual	NIL	100, 000	NIL	Support school going kids and Christmas party for the aged	Conduct programmes that focus on children and those that focus on the elderly		Not Applicable	Not Applicable
Strategy development		NIL	150, 000	NIL	Development of strategy for special groups	Development of strategy for special groups		Not Applicable	Not Applicable
Newsletter		NIL	75, 000	NIL	Development of newsletter	Develop a means for communication between the		Not Applicable	Not Applicable

						municipality and the community			
Community radio	Ongoing	NIL	260, 000	NIL	Support to Alfred Nzo Community Radio	Provide support for the district municipality radio station		Not Applicable	Not Applicable
Media breakfast	Annual	NIL	15, 000	NIL	Interaction with media and journalists	To develop sound relations with the media		Not Applicable	Not Applicable
Annual report	Draft submitted	NIL	200, 000	NIL	Development and preparation of annual reports	Compile an annual report that ventures beyond compliance	60%	Not Applicable	Not Applicable
Strategic plan and team building		NIL	60, 000	NIL	Convening of strategic plans and team building sessions	Convening of strategic plans and team building sessions		Not Applicable	Not Applicable
Advertising, books and publications		NIL	290, 000	NIL	Purchasing of reading material for the municipality	Make reading material available at municipal offices		Not Applicable	Not Applicable
Events and programs	Ongoing	NIL	660, 000	NIL	Hosting and support to all events that are funded by the municipality	Ensure success for all events hosted by the municipality		Not Applicable	Ensure municipal funds are utilised in the most efficient and effective manner

Part 3: Functional Area Reporting and Annexure

Annexure A:

Auditor General's report

ADVERS	SE OF	OPINIC)N
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REPORT OF THE AUDITOR-GENERAL TO PROVINCIAL LEGISLATURE AND COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF UMZIMVUBU LOCAL MUNICIPLAITY FOR THE YEAR ENDED 30 JUNE 2009

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Umzimvubu Local Municipality which comprise the statement of financial position] as at 30 June 2009], statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages [xx] to [xx].

Responsibility of the accounting officer for the financial statements

- 2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with Generally Recognised Accounting Practices [GRAP] and in the manner required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA)] and the Division of Revenue Act. This responsibility includes:
 - designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
 - selecting and applying appropriate accounting policies
 - Making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor-General

- 3. As required by [section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004)] [section of applicable legislation], my responsibility is to express an opinion on these financial statements based on my audit.
- 4. I conducted my audit in accordance with the International Standards on Auditing and *General Notice* [xx] of 2007, issued in *Government Gazette No.* [xxx] of [date]. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

- 5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- 6. An audit also includes evaluating the:
 - · appropriateness of accounting policies used
 - · reasonableness of accounting estimates made by management
 - overall presentation of the financial statements.
- 7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis of accounting

8. The municipality's policy is to prepare financial statements on GRAP as disclosed in accounting policy note 1

Basis for adverse opinion

Unspent Conditional Grant Liability

9. As disclosed on the face of the statement of financial position, the municipality has an unspent conditional grant liability of R53.8 million owing at year end. The municipality does not maintain adequate records of grants received and related expenditure incurred during the year and no documentation was received to verify the amount owing. The municipality's records did not permit the application of alternative procedures regarding the unspent conditional grant liability. Consequently I did not obtain all the information necessary to confirm the amount owing at year end.

(EX 105)

Root Cause

This was a misallocation that was done in the AFS however this is equitable share allocation that was rolled over.

Irregular Expenditure

10. In terms of section 111 of the Municipal Finance Management Act No. 56 of 2003 (MFMA), the accounting officer must ensure that the municipality has and implements a supply chain management policy (SCM). However, goods and services totalling R10.3 million were found to have been procured without having followed the required SCM procedures. The municipality has omitted disclosure of such irregular expenditure in the notes to the annual financial statements. **(EX 102, EX 210, EX152)**

Root Cause

i. The matter is in Court and the Service provider claims that he has a three year contract and the current management is disputing that because our interpretation of this contract as it indicates that it's a one year not a three year contract.

Unauthorized Expenditure

11. The municipality has omitted disclosure of unauthorized expenditure of R10 million in the notes to the annual financial statements. This unauthorized expenditure was incurred as a result of funds arising from a conditional grant received which were not used in accordance with the grants intended purpose. **(EX 101)**

Root Cause

The Council approved to make an internal loan the Free Basic Services Grant, with the view to reimburse, as there was a promise from Department of Agriculture. This promise was never fulfilled by the Department. Lack of proper management advice and knowledge from the Council.

Fruitless and Wasteful Expenditure

12. The municipality has omitted disclosure of fruitless and wasteful expenditure of R486 thousand in the notes to the annual financial statements. The municipality appointed a Consulting Firm to assist with the conversion from IMFO to GRAP. However, due lack of supporting documentation and appropriate systems in place, the Consultants were unable to perform the GRAP implementation. A second Consulting Firm was then appointed to complete the conversion. The amount of R486 thousand paid to the original Consulting Firm results in fruitless and wasteful expenditure. (EX 210).

Root Cause

 The municipality appointed Munsoft Financial System for installation and Munsoft then subcontracted with Umnotho for data capturing of backlog financial year. Due to time constraints it transpired that it would be not be feasible to have another consultant working on the same records but for specific purpose of producing AFS. It was

on this basis that we let Umnotho compile AFS also. The matter was then taken to council for approval as there was inherent variation of scope.

Employee Costs

13. As disclosed in note 15 to the annual financial statements, the municipality has incurred expenditure of R7 million relating payments to third parties for medical aid, pension fund contributions, UIF and PAYE. Numerous differences were identified between the amount disclosed in the financial statements, the general ledger and the underlying source documentation. The municipality did not provide a reconciliation of these amounts and was unable to adequately explain the differences identified. The municipality's records did not permit the application of alternative procedures. Consequently, I did not obtain all the information and explanations to confirm the amounts paid to third parties. (EX 81)(EX 145)(EX 82)

Root Cause

• The reconciliations were not done on time due to system related problems and would only be done at the year end. However this has been subsequently corrected.

The municipality has omitted disclosure of irregular expenditure of R537 thousand in the notes to the annual financial statements. The irregular expenditure was incurred as a result of remuneration paid to councilors based on the scales applicable to a Grade 3 municipality as opposed to a Grade 2 municipality. **(EX 96)**

Root Cause

This was identified in our previous Audit Report and calculation was made and Council was advised however, there was a lot of debate about this issue some Councillors questioning the calculation done by the management this resulted in the delay. A resolution was taken by the Council to adjust their salaries to grade 2 although this started in June which was the last month of the financial year under review, Councillors have made the appeal to MEC regarding the calculation of the grade.

Expenditure

- 14. The municipality did not provide sufficient appropriate audit evidence to support the amounts reflected in the annual financial statement as follows:
 - Expenditure in the amount of R5.8 million had no supporting documentation, therefore no suitable alternative audit procedures could be performed (EX 69)(EX 76)

Root Cause

The municipality is still in a process of finalizing the filing system which will link with financial system coding of transactions.

No supporting documentation was provided for reversals of expenditure transactions amounting to R1.1 million and the
municipality was unable to adequately explain these transactions. No suitable alternative audit procedures could be performed.
(EX 141)

Root Cause

This is a result of municipality not having integrated financial system to properly record all transactions and process necessary journals during the year. The municipality however performed journals at the end of financial year.

Payments amounting to R1.1 million were incorrectly allocated between expenditure accounts. (EX 104)

Root Cause

This was a result of conversion process that was done at the end of financial year.

• Payments to suppliers were not recorded in the municipality's accounting records. I was unable to determine the impact of these unrecorded transactions on expenditure and current liabilities. (EX 98)(EX 131)

Root Cause

The municipality recorded all payments in excel spreadsheets and were then transferred to Munsoft system at the end of financial year. It was during this transfer that some transactions were omitted.

Consequently, there were no satisfactory audit procedures I could perform to obtain reasonable assurance that the expenditure reflected in the annual financial statements is correct.

Property, Plant and Equipment

15. The municipality reflected property, plant and equipment of R306 million in note 6 to the annual financial statements. This balance should be supported by a detailed asset register and assets should be clearly marked with a unique identification number. The asset list that makes up the amount reflected on the AFS could not be physically verified and assets noted at the Municipality could not be traced to the list as there was no unique identification numbers. (EX 156)

Root Cause

The municipality is in a process of finanlising and consolidates the comprehensive fixed asset register that will have unique identification number. The mixing of barcodes was caused by the change of supplier of bar codes.

Furthmore there are unreconciled differences between the general ledger, trial balance and fixed asset register (EX 192)

Root Cause

This resulted in the failure to remove disposed assets in the asset register, however this was subsequently corrected.

Land & Building could not be physically verified as Erf numbers were not included in the asset register. It was therefore not possible to trace the land & building to title deeds to confirm ownership in the name of the municipality. **(EX 193)**

Root Cause

This was caused by gap between the implementation project for property valuation and project for spatial development framework. The two projects could not provide necessary flow of information in respect of details of property ownership.

Consequently, there were no satisfactory audit procedures I could perform to obtain reasonable assurance that all Property, Plant and Equipment on the in the annual financial statements exist or whether all assets that belong to the Municipality are recorded in the AFS.

Value Added Tax (VAT)

- 16. The municipality has disclosed a VAT debtor of R2.2 million in the annual financial statements. The amount as disclosed could not be confirmed due to the following:
 - Monthly reconciliation between the general ledger and VAT 201 forms was not performed.
 - VAT 201 returns were not completed and submitted to the Revenue Authority on a bi-monthly basis.

- All monthly VAT returns were only completed at year end. Monthly revenue figures as reflected in the returns were the same each month reported, however inspection of the municipality's accounting records revealed that revenue was not earned evenly throughout the year.
- The municipality is on the cash basis of accounting for VAT. However, total revenue as reflected in the annual financial statements was reported in the VAT 201 forms for the year. No adjustments were made for the opening and closing balances of accounts receivable.
- VAT returns were not submitted on a timely basis and an unreconciled difference of R1.4 million between the VAT reconciliation and the annual financial statements exists.
- No documentation was provided in supported of the amounts reflected in the year end VAT reconciliation. I was therefore unable to determine the appropriate apportionment percentage to use for the calculation of input VAT.
- Vatable expenditure was recorded in the accounting records inclusive of VAT. These amounts were subsequently reversed via journal entry; however I was unable to determine the appropriateness of the entries processed.

The municipality's records did not permit the application of alternative audit procedures.

Consequently, I was unable to determine the impact on revenue, accounts receivable, expenditure, accounts payable and VAT. (EX 180)(EX 181) (EX 185) (EX 203)

Root Cause

This resulted to the fact municipality outsourced VAT process and due lack integrated financial system, the process started late. This resulted in refunds by SARS done late in the financial year.

Accruals

17. Payments to suppliers were not recorded in the municipality's accounting records. Supplier reconciliations are not performed and therefore I was unable to determine whether all transactions incurred by the municipality have been accurately recorded.

Included in the accrual listing at year end is an opening balance of R88 thousand. No documentation could be provided in support of this balance and the amount was not reversed in the current year. **(EX142)**

Root Cause

The municipally did not have fully functional system that would capture/recognize accruals promptly.

Suitable alternative audit procedures could not be performed.

Consequently, the impact of the unrecorded on expenditure and current liabilities could not be determined. (EX 131)(EX50)(EX142)

Government Grant and Subsidies

- 18. The municipality has disclosed provincial government grants received of R49 million in notes 11 to the annual financial statements. I was unable to verify this amount due to the following:
 - The municipality did not provide adequate supporting documentation and explanations for the amount of R20.8 and R9.5 million disclosed in note 16 to the financial statements. **(EX 139)**

Root Cause

The municipal is in its first year conversion process hence could not fully unbundle the previous funds and year's rollovers.

• A register of all grants received is not maintained by the municipality. As a result, an unreconciled difference of R1.7 million between the Municipal Infrastructure Grant received as per the bank statement and the amount disclosed in the annual financial statements exists. The municipality cannot provide adequate explanations for this difference. (EX 62) EX 129)

Root Cause

This was a result of more funds transferred by National Government as compared to the allocation as per Division of Revenue Act.

Consequently, I did not obtain all the information I considered necessary to verify provincial grants received to the amount of R49 million.

Accounts Receivable

19. As disclosed in note 2 and 3 respectively, the municipality has reflected trade and other receivables of R2.9 million and consumer debtors of R1 million in the annual financial statements.

The municipality did not provide sufficient appropriate supporting documentation and explanations for:

• Debtors with a negative balance of R1.1 million. It is uncertain whether these amounts were incorrectly allocated, bad debts recovered or amounts due by the municipality. (EX198)

Root Cause

This has been misallocation in the Annual Financial Statements however it will be corrected in future.

The debt of the R766 thousand owed by Alfred NZO Municipality (EX 202).

Root Cause

This was caused by the transfer of water function from Umzimvubu Municipality to Alfred Nzo District Municipality. It was further made by poor or non implementation of Section 78 assessment in preparation for the transfer.

Unreconciled differences between the debtors age analysis, debtor's ledger and annual financial statements were identified. The municipality was unable to furnish adequate explanations or documentation in support of these differences. (EX 207)

Root Cause

The municipality did not have integrated financial system to do billing and capturing of information on the system was only done at the end of financial year.

There is uncertainty as to the recoverability of the consumers debtor balance of R1 million as I was unable to determine whether subsequent payments in respect of this balance were received after year end. The adequacy of the allowance for doubtful debts could also not be determined. (Ex 199)

Root Cause

The municipality did not have enough capacity to implement council approved credit control policy

The municipality did not have an adequate debtors system in place during the financial year. Billings were not performed on a monthly basis and all revenue was raised at year end. Reconciliation of the debtor's sub-ledger to the general ledger and age analysis is not performed. (EX21) (EX22)

Root Cause

The integrated financial system was only purchased late in the financial year hence billing and other revenue related processes were done manual in excel spreadsheet.

Consequently, I could not verify the amount of trade and other receivables and consumer debtors reflected in the annual financial statements.

Journals

20. The municipality did not provide sufficient appropriate audit evidence and explanations to support debit journal entries of R265 million and R235 million of credit journal entries. (**EX 209**)

Root Cause

The material journal entries related to the GRAP conversion. The R265M and the R235M relate directly to the prior year closing balance for loans redeemed and capital receipts that have been offset on conversion to GRAP.

The municipality's records did not permit the application of alternative procedures.

Consequently, I did not obtain all the information I considered necessary to determine the appropriateness of the journal entries processed to all transactions and account balances.

Accumulated Surplus

21. Due to the The municipality did not provide sufficient supporting documentation for amounts moving in and out of the accumulated surplus account. (Ex 137)

Root Cause

This was a result of journals passed as the municipality trying to meet the required standards of GRAP.

The entities records did not permit the application of alternative procedures

Consequently, I did not obtain all the information I considered necessary to determine the correctness and appropriateness of the amounts allocated to and from accumulated surplus.

Cash Flow Statement

22. Current year cash paid to suppliers and employees' amounting to R 21 million was added to cash receipts from ratepayers, government and other amounting to R 85 million instead of being subtracted. Furthermore it was noted that the amount as per detailed statement of financial performance for employee related costs amount to R 28 million, as compared to the amount disclosed in the face of the cash flow statement as cash paid to suppliers and employees amounting to R 21 million.(EX 205)

Root Cause

This is a result of improper compilation of annual financial statements however the municipality assures that this would be corrected

Change in Accounting Policy

23. The Municipality changed its basis of accounting from IMFO to GRAP during the current financial year. This change should therefore be applied to all prior year amounts based on the GRAP reporting framework. The change in figures should be disclosed as if the new accounting policy had always been applied.

The audit found that the Municipality has not restated the opening balances of each component affected for the earliest prior period presented. Furthermore, no disclosure of the change in accounting policy has been made in the Annual Financial Statements. A reconciliation of the comparative figures per the IMFO basis to the restated GRAP balances was not provided for audit purposes. The impact of the misstatement is uncertain **(EX 171)**

Root Cause

This was a result of the fact that the municipality implemented the conversion to GRAP reporting format due to insufficient capacity.

Opening balances

24. As reported in the prior year a disclaimer of audit opinion was issued. During the year under review no corrective measures were implemented by management on qualifications reported and as a result I am unable to verify the opening balances other than agreeing them to the prior year financial statements.

Furthermore the following differences were noted between the prior year AFS and the amount recorded in the current AFS

Grants and Subsidies were disclosed as R79.9 million in the prior year AFS and are now stated at R76.8 resulting in a difference of R3.1 million

Other income was disclosed as R 3 1 and the prior year AFS were R5.4 million resulting in a difference of R2.3 million. (EX 174)

Root Cause

The Municipality has not adjusted prior year balances due to the interpretation of Directive 4 (Grap 1). Although actual adjustment to prior year AFS numbers in the current year AFS was done, items that have a GRAP impact were adjusted fully and retrospective.

Adverse opinion

25. In my opinion, because of the significance of the matters described in the Basis for adverse opinion paragraphs, the financial statements do not present fairly, in all material respects, the financial position of the Umzimvubu Local Municipality as at 30 June

2009 and its financial performance and cash flows for the year then ended in accordance with GRAP in all material respects, in accordance with the basis of accounting described in accounting policy note 1 and in the manner required by the MFMA

OTHER MATTERS

I draw attention to the following matters that are ancillary to my responsibilities in the audit of the financial statements:

26. Material non-compliance with applicable legislation

Municipal Systems Act, 2000 (Act no. 32 of 2000) (MSA)

No performance contracts for the municipal manager and those managers reporting to him were in place during the year under review. This is a material contravention of section 57 of the MSA and is likely to have impacted negatively on the municipality's performance.

The members of council have not disclosed their direct and indirect business interests as required by section 54 of the MSA read with paragraph 5 (a) and (b) of schedule 1 code of conduct for councillors of the same act.

VAT

Non-compliance with S28 (1) - Vat Returns were not submitted timeously to SARS

Non compliance with MFMA

The municipality did not comply with Municipal Finance Management Act no. 56 of 2003, S65 (2) (b) & (c) regarding payment of creditors within 30 days of receiving the relevant invoice or statement.

Internal Control Deficiencies

27. Section 62(1) (c) (i) of the MFMA states that the accounting officer must ensure that the Municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes that gave rise to the deficiencies in the system of internal control, which led to the [qualified/adverse/disclaimer of] opinion. The root causes are categorised according to the five components of an effective system of internal control. (The number listed per component can be followed with the legend below the table.) In some instances deficiencies exist in more than one internal control component.

Par. no.	Basis for disclaimer of opinion	CE	RA	CA	IC	M
5	Unspent Conditional Grant Liability				1	
6	Irregular	1	2			
7	Unauthorised	1	2			
8	Fruitless and Wasteful	1	2			1
9	Employee Costs			3		1
10	Expenditure			3		1
11	Property, Plant and Equipment					1
12	VAT					1
13	Accruals					1
14	Government, Grant and Subsidies					1
15	Accounts Receivable	1				1
16	Journals	1				1
17	Accumulated Surplus	1				1
18	Cash Flow				1	1
19	Accounting Policy				1	
20	Opening Balance				1	

CE = Control environment

The organisational structure does not address areas of responsibility and lines of reporting to support effective control over financial reporting.

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Management and staff are not assigned appropriate levels of authority and responsibility to facilitate control over financial reporting.	2
Human resource policies do not facilitate effective recruitment and training, disciplining and supervision of personnel.	3
Integrity and ethical values have not been developed and are not understood to set the standard for financial reporting.	4
The accounting officer/accounting authority does not exercise oversight responsibility over financial reporting and internal control.	5
Management's philosophy and operating style do not promote effective control over financial reporting.	6
The entity does not have individuals competent in financial reporting and related matters.	7
RA = Risk assessment	
Management has not specified financial reporting objectives to enable the identification of risks to reliable financial reporting.	1
The entity does not identify risks to the achievement of financial reporting objectives.	2
The entity does not analyse the likelihood and impact of the risks identified.	3
The entity does not determine a risk strategy/action plan to manage identified risks.	4
The potential for material misstatement due to fraud is not considered.	5
CA = Control activities	
There is inadequate segregation of duties to prevent fraudulent data and asset misappropriation.	1
General information technology controls have not been designed to maintain the integrity of the information system and the security of the data.	2
Manual or automated controls are not designed to ensure that the transactions have occurred, are authorised, and are completely and accurately processed.	3
Actions are not taken to address risks to the achievement of financial reporting objectives.	4
Control activities are not selected and developed to mitigate risks over financial reporting.	5

Policies and procedures related to financial reporting are not established and communicated.	6
Realistic targets are not set for financial performance measures, which are in turn not linked to an effective reward system.	7
IC = Information and communication	
Pertinent information is not identified and captured in a form and time frame to support financial reporting.	1
Information required to implement internal control is not available to personnel to enable internal control responsibilities.	2
Communications do not enable and support the understanding and execution of internal control processes and responsibilities by personnel.	3
M = Monitoring	
Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.	1
Neither reviews by internal audit or the audit committee nor self -assessments are evident.	2
Internal control deficiencies are not identified and communicated in a timely manner to allow for corrective action to be taken.	3

Matters of governance

28. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Many of these have been addressed in detail above. The table below reflects how certain of the financial and governance matters as well as other matters included under the reporting on performance information below, will be reported in the auditor's report.

No.	Matter	Y	N
	nr trail of supporting documentation that is easily available and provided in nely manner		
1.	No significant difficulties were experienced during the audit concerning delays or		Х

No.	Matter	Y	N
	the availability of requested information.		
•	Quality of financial statements and related management information		1
2.	The financial statements were not subject to any material amendments resulting from the audit.		Х
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.		Х
Time	eliness of financial statements and management information		
4.	The annual financial statements were submitted for auditing as per the legislated deadlines section 126 of the MFMA.	Х	
Ava	ilability of key officials during audit		<u> </u>
5.	Key officials were available throughout the audit process.	Х	
	elopment and compliance with risk management, effective internal control governance practices		1
6.	Audit committee		
	The municipality had an audit committee in operation throughout the financial year.	Х	
	The audit committee operates in accordance with approved, written terms of reference.	Х	
	The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.		Х
7.	Internal audit		

No.	Matter	Y	N
	The municipality had an internal audit function in operation throughout the financial year.	Х	
	The internal audit function operates in terms of an approved internal audit plan.		Х
	• The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.		Х
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.		Х
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.		Х
10.	The information systems were appropriate to facilitate the preparation of the financial statements.		Х
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in [Treasury Regulation 3.2/27.2]/[section 62(c)(i)/95(c)(i) of the MFMA].		X
12.	Delegations of responsibility are in place, as set out in section 79/106 of the MFMA.	Х	
Follo	ow-up of audit findings		
13.	The prior year audit findings have been substantially addressed.		Х
Issu	es relating to the reporting of performance information		1
14.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.		X
15.	Adequate control processes and procedures are designed and implemented to		Х

No.	Matter	Y	N
	ensure the accuracy and completeness of reported performance information.		
16.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the [entity name] against its mandate, predetermined objectives, outputs, indicators and targets [Treasury Regulations 5.1, 5.2 and 6.1 (departments)/Treasury Regulation 29.1/30.1 (public entities)]/[section 68/87 of the MFMA (municipalities)].		X
17.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.		X

29. Significant delays were experienced during the execution of our audit as a result of the Municipality not providing documentation and explanations required for audit purposes. A structured process was followed in an attempt to obtain the documentation and explanations. Management was regularly informed of the delays experienced. Most documentation and explanations required were only submitted after several attempts. This was due to inadequate systems, monitoring and supervision in place throughout the financial year.

Root Cause

The major cause of this was the movement of the main office from Mt-Ayliff to Mt-Frere and as a result of poor planning for the movement many of the documents got lost and some were not available in the main Office officials had to travel to Mt-Ayliff to look for documents and some wee managed to get the and that was the major cause of delay.

- 30. The Municipality submitted their annual financial statements on the due date. However, there were significant delays in the submission of documentation supporting balances and information contained within the financial statements. This information should have been readily available, as it should have been the base from which the Municipality prepared the financial statements.
- 31. The annual report has not been submitted for consideration prior to the audit report being signed as the Municipality is still in the process of preparing the annual report.
- 32. The audit committee did not review the financial statements before the submission on the 31 August 2009 and as a result they were not able to detect the numerous errors identified during the audit process Furthermore the audit committee only met twice during the financial year and as a result were unable to effectively discharge there mandate

- 33. The Internal audit did not have an approved internal audit plan approved by the Audit committee before the start of the financial year. Due to the internal audit reports being received in November where the information requested was due in August it was uncertain as to what work was performed by the internal audit.
- 34. The significant deficiencies in the design and implementation of internal control in respect of financial and risk management were attributed to a lack of approved and implemented policies being in place for the whole of the year under review and to key internal controls and processes that were either not in place or not functioning as intended.
- 35. The significant deficiencies in the design and implementation of internal control in respect of the compliance with applicable laws and regulations were attributed to a lack of implemented controls not being adhered to and a lack of monitoring and supervision by management. Management has not taken sufficient action to clear all audit findings. Management had an audit intervention plan in place to address high risk areas; however this was not effective as they did not evaluate their plans.
- 36. The municipality has not undertaken a risk assessment to assess any risk for fraud and has consequently not developed a fraud prevention plan. This is as a result of action plans and follow up on prior year issues not sufficiently addressed by management.
- 37. Management had an audit intervention plan in place to address prior year finding, however these plans were not implemented by management.
- 38. The reliability of the source information and systems utilized to gather the information was not found to be reliable.
- 39. There are no documented and approved policies and procedures in place for the reporting of performance information.
- 40. The main factors that contributed to the disclaimer of opinion was due the Municipality not having the capacity to deal with the financial reporting resulting in no segregation of duties. Due to the capacity constraints monthly reconciliations and supervision were not performed. There were no adequate records that were filed and no individual with the responsible to ensure all supporting documentation was maintained.

The financial statements submitted were not appropriate in terms of the GRAP reporting standard and the municipality does not have the experience and knowledge to fully comply with these accounting standards.

Furthermore consultants were used close to year end to prepare financials and to process transactions that had not been done throughout the year which ultimately resulted in to much to do in a short time.

The Municipality were also not hands on with consultants which resulted in them being unaware of what amounts were being processed in the accounting system and the amounts recorded in the annual financial statements.

OTHER REPORTING RESPONSIBILITIES

Reporting on performance information

41. I was engaged to the review of performance information.

Responsibility of the accounting officer

42. n terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

Responsibility of the Auditor-General

- 43. I conducted my engagement in accordance with section 13 of the Public Audit Act, 2004 read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.
- 44. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
- 45. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

Audit findings

Non Compliance with regulatory requirements:

46. The municipality did not submit performance information report together with the annual financial statements.

APPRECIATION

47. The assistance rendered by the staff of the Umzimvubu Local Municipality during the audit is sincerely appreciated.

Signature

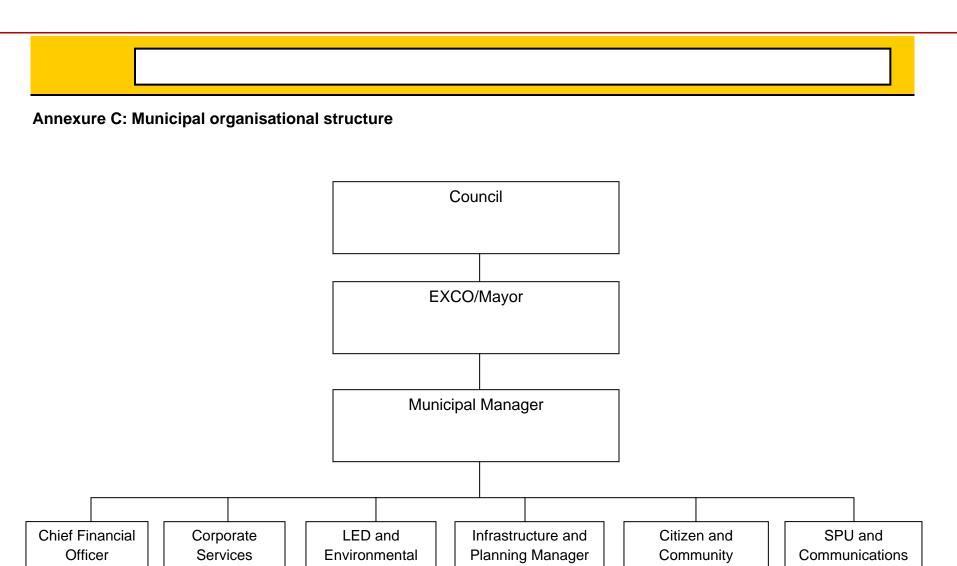
For Auditor-General

City

Date



Annexure B:			
Plan of action of the municipali	y to address findings of the	AG report	
Jmzimvubu Municipality	Draft		2008/2009 Annual Report



Manager

Services

Services Manager

Manager

2008/2009 Annual Report **Umzimvubu Municipality** Draft

nnexure E:		
ouncil resolutions adopting	the annual report	
nzimvubu Municipality	Draft	2008/2009 Annual Report